



CHARTERED INSTITUTE OF STOCKBROKERS

September 2008 Professional Examination Level 3

PAPER 3.1: SECURITIES ANALYSIS AND PORTFOLIO MANAGEMENT

Tuesday, September 23, 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) A company quoted on the Nigerian Stock Exchange has just released its audited financials with improved performance in terms of dividend and profit after tax compared to the previous years. That same week, you observe that the price of the stock still nosedived.
- Give 3 reasons why this is so? (1½ marks)
- (ii) State three possible forms of dividend declaration by a company. (1½ marks)
- (iii) ABC Plc had an initial public share offer that was oversubscribed. The company decided to absorb all the excess applications after due approvals from the regulatory authorities. The projected financials were also amended to reflect the enlarged paid-up share capital. When the market heard about this information, the company share price started to decline.
- What do you think the market was reacting to and what advice would you give to the management of ABC Plc if they approach you for possible solutions? (1½ marks)
- (iv) Your stockbroker just called you regarding your request to invest and has given you two options. To invest in XYZ Plc who last paid 78kobo dividend per 100kobo share with a P/E ratio of 12 or DEF Plc that paid dividend of 15kobo per 100kobo share but with a P/E ratio of 3.
- Which of the two companies will you instruct your stockbroker to buy for you and why? (1 mark)
- (v) Why is diversification critical in portfolio planning? (2 marks)
- (vi) How much would you have to invest today to receive N10,000 in 10 years time at 6.5% interest per annum. (1 mark)
- (vii) List 3 risk factors that differentiate a treasury bill from a corporate bond. (1½ marks)
- (viii) Which of this is a closed fund?
a. Investment trust company
b. Unit trust company
c. Assurance company
d. Asset management company (1mark)

- (ix) Describe the three major variables that affect the earnings multiplier for common stocks. (1½ marks)
- (x) Differentiate between growth companies and growth stocks. (2 marks)
- (xi) Explicitly give the meaning of capital preservation as an investment objective. (1 mark)
- (xii) Give the precise meaning of insurance life annuity. (1mark)
- (xiii) A bond sold at par for N1,000 is to mature in 10 years. If the bond sells at the end of the year for N990 and previous year at N995, coupon rate is 10%, compute the holding period yield and return. (2 marks)
- (xiv) What is a bond yield spread? (1 mark)
- (xv) Describe the structure of a balanced fund in asset allocation. (2 marks)
- (xvi) You are given the following estimate per share related to an index fund for the year.
- | | N'million |
|------------------|-----------|
| Sales | 2,020 |
| Depreciation | 90 |
| Interest payment | 56 |
- You are also informed that the estimated operating profit margin is 0.254 and the tax rate is 30%. Compute the earning per share. (2 marks)
- (xvii) Identify and explain the 5 fundamental components of risk premium. (2½ marks)
- (xviii) Define the expense ratio of a mutual fund. (1 mark)
- (xix) When will you recommend an all capital market instruments investment to your client? (1 mark)
- (xx) In a public offer, explain the circumstances that can make an issuing company to offer its stock to the public by way of offer for sale and offer for subscription at the same time. (2 marks)

Total: 30 marks

SECTION B

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

- 2** (a) Explain what is meant by the structure of interest rate, and the theoretical basis of interest rates. (5 marks)
- (b) Explain the economic circumstances under which you would expect to see the inverted yield curve prevail. (5 marks)
- (c) At the present time, you expect a decline in interest rates and must choose between two portfolios of bonds with the following characteristics.

| | Portfolio A | Portfolio B |
|--------------------------|--------------------|--|
| Average maturity | 10.5 years | 10.0 years |
| Average year to maturity | 7% | 10% |
| Modified duration | 5.7years | 4.9years |
| Modified convexity | 125.18 | 40.30 |
| Call features | Non-callable | Deferred call features that range from 1 to 3years |

Required:

Select one of the portfolios and discuss three factors that would justify your selection.

(7½ marks)

Total: 17½ marks

- 3** Consider the recent performance of the closed fund, a closed-end fund devoted to finding undervalued thinly traded stock:

| Period | Net Asset Value (NAV) N'billion | Premium/ Discount |
|--------|------------------------------------|----------------------|
| 0 | 10.00 | 0.0 |
| 1 | 11.25 | -5.0 |
| 2 | 9.85 | +2.3 |
| 3 | 10.50 | -3.2 |
| 4 | 12.30 | -7.0 |

The price premiums and discounts are indicated by pluses and minuses respectively and period 0 represents closed fund's initiation date.

Requirement of Question 3

- (a) Calculate the average return per period for an investor who bought 100 shares of the closed fund at the initiation and then sold her position at the end of period 4.
- (b) What was the average periodic growth rate in NAV over that same period?
- (c) Calculate the periodic return for another investor who bought 100 shares of closed fund at the end of period 1 and sold his position at the end of period 2.
- (d) What was the periodic growth rate in NAV between period 1 and 2?

Total: 17½ marks

- 4** The expected rate of return for Chucks Plc ordinary shares ranges between -0.6 and 0.8 with the following probabilities.

| Possible rate of return | Probability |
|-------------------------|-------------|
| -0.6 | 0.15 |
| -0.3 | 0.10 |
| -0.1 | 0.05 |
| 0.2 | 0.40 |
| 0.4 | 0.20 |
| 0.8 | 0.10 |

Required:

- (i) Compute the expected $\{E(R)\}$ return and risk on this stock.
- (ii) On the basis of the expected return $\{E(R)\}$ and risk:
 - (a) Discuss the preferable investment with a similar company B with risk 0.128 and $E(R)$ of 0.0525.
 - (b) Which other measure can be more effective in determining the preferred investment?

Total: 17½ marks

- 5** (a) (i) Valuing common stock may be more challenging than valuing debt. Why is this so? (3 marks)
- (ii) A company just paid a cash dividend of N2 per share. Investors require 16% return from investments such as this.
- (a) If the dividend is expected to grow at a steady 8% per annum, what is the current value of the stock?
 - (b) What will be the worth of the stock in 5 years? (4 marks)

- (iii) You are an investor in stocks and you have always observed that whenever companies release their financials, prices automatically adjust to react to the increase or decrease in net profit and dividend payable. However, in the last six months, you observe that market no longer reacted to the publication of these financials.

Discuss this observation in relation to the efficient market hypothesis.
(3 marks)

- (b) Your client has requested you to value the shares of his company and the following summarised financials were provided:

| | 2007 | 2006 | 2005 |
|-----------------------|-------------|------------|------------|
| Net profit after tax | 12,667,078 | 15,050,576 | 14,327,820 |
| No of shares in issue | 46,297,248 | 46,297,248 | 46,297,248 |
| Current assets | 129,017,688 | 89,516,559 | 78,929,505 |
| Current liabilities | 51,400,036 | 59,862,016 | 39,574,619 |
| Net current assets | 77,617,652 | 29,654,543 | 39,354,886 |

The following additional information was provided:

- (i) Industry's average earning per share was 22kobo
(ii) Capitalization rate was 13.5%

The following weights were assigned for each of the valuation methodology in use.

| Methods | Weight |
|-----------------------------|--------|
| Net assets basis | 50% |
| Maintainable earnings basis | 25% |
| Current earnings basis | 25% |

Using each of the above methods and the average price, determine the fair share price of your client company.

(7½ marks)

Total: 17½ marks

- 6 Nwankwo, an investment analyst uses the capital asset pricing model (CAPM) to help identify mis-priced securities. A consultant suggested that Nwankwo should use the arbitrage pricing theory (APT) instead. In comparing the CAPM and the APT, the consultant made the following arguments:
- (a) Both the CAPM and the APT require a mean-variance efficient market portfolio.
(b) Neither the CAPM nor the APT assumes normally distributed security returns.
(c) The CAPM assumes that one specific factor explains security returns but the APT does not.

State whether each of the consultant's arguments is correct or incorrect. Indicate, for each incorrect argument, why the argument is incorrect.

Total: 17½ marks

- 7** Pension reforms all over the world are emphasizing a switch from unfunded plans to funded plans.

Required:

- (a) Differentiate between underfunded and overfunded defined benefit scheme of a pension plan.
- (b) Discuss the embedded pension risks of defined benefit scheme and defined contributions scheme.
- (c) What is the relationship between group life assurance and wholesale (franchise) life assurance?
- (d) Highlight the main differences between programmed withdrawal of benefits from Pension Fund Administrators and purchase of contingent annuities from an insurance company as codified in Pension Reform Act 2004.

Total: 17½ marks



CHARTERED INSTITUTE OF STOCKBROKERS

September 2008 Professional Examination Level 3

PAPER 3.2: FINANCIAL FUTURES AND OPTIONS

Tuesday, September 23, 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 1½ marks.
Total marks for this question: 30 marks**

- 1** (i) What is contract for the difference?
- (a) The contract that has varying days of maturity
 - (b) The difference between the terms specified by the contract and actual delivery
 - (c) The ability of counter party to get the right instrument at settlement date
 - (d) The settlement of price differential resulting from inability to get the right instrument specified by the contract
- (ii) A stock is selling at ₦30.00, a 3 months put at ₦40.00 is selling for ₦12, a 3 month call at ₦30.00 is selling for ₦1.00 and risk-free rate is 5%. How much if anything can be on an arbitrage?
- (a) =N= 1.25
 - (b) =N= 1.35
 - (c) =N= 1.45
 - (d) =N= 1.55
- (iii) An investor wishes to hedge his portfolio worth ₦5m using the S & P 500 index futures contract with 6 months to maturity. The current price is ₦300 while the beta (β) of the portfolio is 1.2. How many contracts are needed to hedge the portfolio?
- (a) 40 contracts
 - (b) 42 contracts
 - (c) 48 contracts
 - (d) 50 contracts
- (iv) What is the annual discount rate on a T – bill due in forty- five days with a face value of ₦100,000 and quoted at a price of ₦99,500?
- (a) 2%
 - (b) 3%
 - (c) 4%
 - (d) 5%
- (v) Suppose it costs ₦2 per ounce per annum to store gold with the payment being made at the end of the year. Assume the spot price is ₦400 and the risk free rate of interest is 5% per annum for all maturity. Determine the future price.
- (a) =N= 342.80
 - (b) =N= 420.50
 - (c) =N= 422.38
 - (d) =N= 431.48

- (vi) A ~~¥40~~ call on a stock trading at ~~¥43~~ is priced at ~~¥5~~. The time value of the option is:
- (a) ~~¥2~~
 - (b) ~~¥3~~
 - (c) ~~¥5~~
 - (d) ~~¥8~~
- (vii) An interest rate floor on a floating-rate (from the issuer's perspective) is equivalent to a series of:
- (a) Long interest rate puts
 - (b) Long interest rate calls
 - (c) Short interest rate puts
 - (d) Short interest rate calls
- (viii) Assume you bought a put on a stock selling for ~~¥60~~, with a strike price of ~~¥55~~ for a ~~¥5~~ premium. What would be your maximum gain?
- (a) ~~¥50~~
 - (b) ~~¥55~~
 - (c) ~~¥60~~
 - (d) ~~¥65~~
- (ix) A put with a strike price of ~~¥75~~ sells for a premium of ~~¥10~~. Which of the following statements is false? The greatest:
- (a) Profit the writer of a put option can make is ~~¥10~~
 - (b) Profit the buyer of a put option can make is ~~¥65~~
 - (c) Loss the writer of a put option can make is ~~¥75~~
 - (d) Loss to the buyer of a put option is ~~¥10~~
- (x) The value of a European call option on an asset with no cashflow is positively related to all of the following except:
- (a) Volatility
 - (b) Risk-free rate
 - (c) Time exercise
 - (d) Exercise price
- (xi) A plain vanilla interest-rate swap to the fixed-rate payer is equivalent to issuing a fixed-rate bond and:
- (a) Selling a series of interest rate puts
 - (b) Selling a series of interest rate calls
 - (c) Buying a floating-rate bond
 - (d) Buying a forward rate agreement
- (xii) Compared to futures prices on a six-month contract, forward prices on an identical contract are:
- (a) always higher
 - (b) always lower
 - (c) equal
 - (d) either higher or lower

- (xiii) The best measure of the amount of credit risk exposure for a forward contract, at a point in time, is the:
- (a) Notional amount of the contract
 - (b) Margin deposit
 - (c) Value of the contract
 - (d) Liabilities of the counterparty
- (xiv) What is the situation called when a futures price continuously increases over its life because most hedging strategies are short hedges?
- (a) A normal market
 - (b) A market that is in backwardation
 - (c) Contango
 - (d) Normal backwardation
- (xv) Assume that a three-year semi-annually settled cap with a strike rate of 8% and a notional amount of ₦100 million is being analyzed. The reference rate is six-month NIBOR. NIBOR for the four semi-annual periods is as follows:

| Period | NIBOR |
|--------|-------|
| 1 | 7.5% |
| 2 | 8.2% |
| 3 | 8.1% |
| 4 | 8.7% |

- What is the payoff for the cap for period 4?
- (a) ~~₦~~870,000.00
 - (b) ~~₦~~350,000.00
 - (c) ~~₦~~100,000.00
 - (d) ~~₦~~700,000.00
- (xvi) Which of the following is the best approximation of the gamma of an option, if its delta is equal to 0.6 when the price of the underlying security is 100; and 0.7 when the price of the underlying security is 110?
- (a) 0.00
 - (b) 0.10
 - (c) 0.01
 - (d) 1.00
- (xvii) Which of the following is TRUE concerning an option's sensitivity to volatility as a function of an asset's price? An option's sensitivity to volatility is highest when the option:
- (a) Price is low
 - (b) Is at the money
 - (c) Is in the money
 - (d) Is out of the money

- (xviii) For all parties involved, which of the following financial instruments is not an example of a forward commitment?
- (a) Swap
 - (b) Call option
 - (c) Futures contract
 - (d) Forward contract
- (xix) Which of the following statements is least accurate?
- (a) Futures contracts are easier to offset than forward contracts
 - (b) Forward contracts are generally more liquid than futures contracts
 - (c) Forward contracts are easier to tailor to specific needs than futures contracts
 - (d) Futures contracts are characterized by having a clearinghouse as an intermediary
- (xx) A trader enters into a short position of 20 futures contracts at an initial futures price of ₦85.00. Initial margin per contract is ₦7.50. Maintenance margin, per contract, is ₦7.00. Each contract is for one unit of the underlying asset. Over the next three days, the contract settles at ₦86.00, ₦84.25 and ₦85.50. Assuming the trader does not withdraw any funds from his margin account during the period, but does post variation margin sufficient to meet any maintenance margin call, the balance in the margin account will be:
- (a) ₦150.00 at initiation and ₦140.00 at settlement on Day 3
 - (b) ₦150.00 at initiation and ₦150.00 at settlement on Day 3
 - (c) ₦150.00 at initiation and ₦165.00 at settlement on Day 3
 - (d) ₦140.00 at initiation and ₦150.00 at settlement on Day 3

SECTION B

Answer four questions from this section.

Total marks for this section: 70 marks

- 2** You are the portfolio manager of Treasury Pension Fund. You manage a well-diversified equity portfolio that mirrors the performance of the NSE market index. The portfolio is currently worth ~~N~~1.44 billion. The index currently stands at ~~N~~4,800.00 with a multiplier of ~~N~~1,000.00. You plan to buy insurance against a reduction of more than 5% in the value of the portfolio over the next three months. The risk-free interest rate is 7.5% per annum. The dividend yield on both the portfolio and the index is 2.5% per annum, and the quarterly volatility (standard deviation) of the index is 15%.

Required:

- (a) If you buy traded European put options, how much would the insurance cost?
- (b) Explain carefully alternative strategies open to you involving traded European call options, and show that they lead to the same result
- (c) If you decide to provide insurance by keeping part of the portfolio in risk-free securities, what should the initial position be?
- (d) If you decide to provide insurance by six-month index futures, what should the initial position be?

Total: 17½ marks

- 3** It is now 1 November. The Treasury Department of Ranodu Bank Plc has predicted a temporary surplus of US\$7.2 million which will arise towards the end of March next year. The surplus is predicted to last four months. It is intended to put this money on deposit for that period. The company can currently deposit US dollars at 6% p. a. In case of further reductions in interest rates, it is decided to hedge, using interest rate futures.

The following data is available:

| | |
|--------------------------------|------------------|
| November 1 | |
| Three month Eurodollar futures | |
| \$1,000,000 points of 100% | |
| | Contact Price |
| December | 93.30 |
| March | 92.40 |
| June | 91.74 |
| September | 91.28 |

Requirement for Question 3:

- (a) Explain how the hedge will be set up
- (b) Illustrate the result of the hedge under the following scenarios:
- Interest rates fall by 1.5%. The futures market moves by 80% of this amount.
 - Interest rates rise by 2%. The futures market moves by 90% of this amount.

In each case, show the hedge efficiency and effective rate achieved.

Total: 17½ marks

4 Use the table below to answer the following questions:

| Stock | Current Price ₦ | Exercise Price ₦ | Time of Maturity | | | |
|-------|--------------------|---------------------|------------------|---------------|---------------|---------------|
| | | | Call Premium | | Put Premium | |
| | | | 3 Months ₦ | 6 Months ₦ | 3 Months ₦ | 6 Months ₦ |
| A Plc | 52 | 50 | 3 | 4.00 | 0.35 | 1.05 |
| B Plc | 40 | 45 | 1 | 1.25 | 5.50 | 6.00 |
| C Plc | 35 | 30 | 6 | 6.30 | 0.45 | 0.65 |

- (a) You sell one 3-month call contract on A Plc and at expiration the stock is selling for ₦57.

Determine:

- The value of the option at expiration and the profit on the position
 - The breakeven price of the stock
- (b) Yaro Okon sells one six-month call option on B Plc and also purchases one unit of the stock. At expiration the stock is selling at ₦46.
- What combination has been created by Yaro?
 - What is the profit of the combination at expiration?
 - What is the breakeven stock price at expiration?
- (c) Ade Brown purchases one 3-month put on C Plc and simultaneously purchases one unit of the stock. At expiration the stock is selling at ₦42.
- What combination is created by Ade?
 - What is the profit of the combination at expiration?
 - What is the maximum possible loss?

Total: 17½ marks

- 5 (a) Explain the term in the money and out of the money option contract.
(3 marks)
- (b) An investor writes 5 naked call option contracts with an option price of ₦3.20. If the strike price is ₦70.00 and the stock price is ₦65.00. What is the initial and minimum margin requirement?
(6 marks)
- (c) From the following information, compute margin account balances as at:

| Settle Date | | Settle Prices |
|--------------------|---|---------------|
| 21/01/08 | - | ₦210.55 |
| 01/02/08 | - | ₦211.65 |
| 08/02/08 | - | ₦220.75 |
| 15/02/08 | - | ₦208.85 |
| 22/02/08 | - | ₦202.15 |
| 29/02/08 | - | ₦206.85 |
| 08/03/08 | - | ₦206.35 |
| Initial margin | - | ₦12,000 |
| Trading Units | - | 500 |
| Maintenance margin | - | ₦7,000 |

(8½ marks)

Total: 17½ marks

- 6 The Nigerian crude oil currently sells at \$70.0 per barrel in the world market and the risk-free rate is 8.0% per annum. A certain quotation indicates the future price of the oil to be \$92.57.
- (a) Determine the price of a six-month maturity futures contract on oil.
(6 marks)
- (b) What kind of opportunity is available to investors in the market given your result in (a) above particularly with respect to the quotation of \$92.57?
(6 marks)
- (c) If another friend tells you that a future quotation of \$97.50 will suggest a misalignment in pricing, how many months will it take to achieve spot-future parity?
(5½ marks)

Total: 17½ marks

- 7** (a) A farmer has sold one July maize future at ₦1,000 per tonne. However, he subsequently feels he does not wish to sell his maize but feed his livestock.

What strategy is open to the farmer in the futures market?

(6

marks)

- (b) What is the view of the following concerning the future price of the underlying asset at the time of entering into the contract:

(i) A call option holder (2 marks)

(ii) A put option holder (2 marks)

- (c) A 6-month forward contract paying no dividend has a price of ₦50.00. If the risk-free rate is 7.7% per annum, calculate:

(i) The forward price of the contract (4 marks)

(ii) The value of the contract (3½ marks)

Total: 17½ marks



CHARTERED INSTITUTE OF STOCKBROKERS

September 2008 Professional Examination Level 3

PAPER 3.3: MARKETING OF FINANCIAL SERVICES

Wednesday, September 24, 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.

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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) The type of marketing demand where a major part of the market dislikes the product and may even pay a price to avoid it is called:
- (a) Negative demand
 - (b) Latent demand
 - (c) Regular demand
 - (d) Overful demand
 - (e) Unwholesome demand
- (ii) The task of marketing does not include one of the following:
- (a) Creating goods and services
 - (b) Consuming goods and services
 - (c) Promoting goods and services
 - (d) Delivering goods and services
 - (e) Pricing goods and services
- (iii) The type of markets where marketers call for bids is known as:
- (a) Business markets
 - (b) Consumer markets
 - (c) Government markets
 - (d) Global market(s)
 - (e) Agricultural markets
- (iv) The latest practice in which marketers are getting involved is called:
- a) Relationship marketing
 - b) Merchandising
 - c) Service marketing
 - d) E-business
 - e) Product marketing
- (v) _____ is the total of the discounted lifetime values of all the firms' customers.
- (a) Product equity
 - (b) Relationship equity
 - (c) Brand equity
 - (d) Value equity
 - (e) Customer equity
- (vi) The level of investment in customer-relationship building where the salesperson sells the product is:
- (a) Accountable marketing
 - (b) Partnership marketing
 - (c) Proactive marketing
 - (d) Reactive marketing
 - (e) Basic marketing

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- (vii) The purpose of _____ is to examine whether the planned results are being achieved.
- (a) Strategic control
 - (b) Efficiency control
 - (c) Profitability control
 - (d) Annual-plan control
 - (e) Effectiveness control
- (viii) The modern marketing department involving the national, regional, zonal and district sale managers is known as:
- (a) Customer organization
 - (b) Functional organization
 - (c) Geographic organization
 - (d) Product organization
 - (e) Market organization
- (ix) Personal selling task of identifying would be buyer is called:
- (a) Pre-approval
 - (b) Prospecting
 - (c) Approach
 - (d) Presentation
 - (e) Follow-up
- (x) The benefit of direct marketing to the customers is that it:
- (a) Saves time
 - (b) Can be timed
 - (c) Gives the opportunity of meeting prospects face to face
 - (d) Provides mailing list of possible customers
 - (e) Assists in competition
- (xi) Consumers promotion tool where merchandise are offered at a relatively low cost or free as an incentive to purchase a particular product is:
- (a) Premium
 - (b) Price packs
 - (c) Samples
 - (d) Free trials
 - (e) Cash refund
- (xii) _____ measures the number of people with target audience characteristics who actually saw an advertisement.
- (a) Circulation
 - (b) Effective ad-exposed audience
 - (c) Effective audience
 - (d) Audience
 - (e) Audience size
- (xiii) Taking cognizance of the profiles of major media, the type with advantages of sight, sound and motion and disadvantages of high cost and clutter is the:
- (a) Outdoor
 - (b) Radio
 - (c) Television
 - (d) Magazine
 - (e) Internet

- (xiv) Which of these factors is not considered when setting the advertising budget?
- (a) Product substitutability
 - (b) Advertising frequency
 - (c) Market share
 - (d) Stage in the product life cycle
 - (e) Product/service cost
- (xv) The promotional tool with unique characteristics of high credibility is:
- (a) Personal selling
 - (b) Advertising
 - (c) Sales promotion
 - (d) Public relations
 - (e) Direct selling
- (xvi) An order point of 20 means:
- (a) Reorder 20 in 20 times
 - (b) Reorder 20 units
 - (c) Reordering when the stock falls to 20 units
 - (d) Reorder 20 times
 - (e) Reorder 20 times the usual order (units)
- (xvii) Wholesaler type that facilitates buying and selling and does not carry inventory and is paid by the party who hires him is a:
- (a) Specialized wholesaler
 - (b) Broker
 - (c) Limited-service wholesaler
 - (d) Full-service wholesaler
 - (e) Merchant wholesaler
- (xviii) The power of the manufacturer to withdraw a resource or terminate a relationship if intermediaries fail to co-operate is:
- (a) Coercive power
 - (b) Reward power
 - (c) Legitimate power
 - (d) Expert power
 - (e) Referent power
- (xix) Discriminatory pricing depending on whether it is purchased in a fine restaurant, a fast-food restaurant, or a vending machine is known as:
- (a) A channel pricing
 - (b) Time pricing
 - (c) Location pricing
 - (d) Customer segment pricing
 - (e) Image pricing
- (xx) _____ is one of the 7Ps of service marketing mix elements requiring cautious and skilful selection, training and motivation of employees.
- (a) Price
 - (b) People
 - (c) Physical evidence
 - (d) Process
 - (e) Product

- (xxi) Advantages of branding to seller do not include one of the following:
- (a) Easier to process orders
 - (b) Protection from competition
 - (c) Helping to increase quantity produced
 - (d) Helping to build the corporate image
 - (e) Helping to segment the market
- (xxii) A situation in which a seller treats its total market as single segment is known as:
- (a) Aggregate strategy
 - (b) Multiple segment strategy
 - (c) Single segment strategy
 - (d) Online strategy
 - (e) Stratification
- (xxiii) _____ is the international market entry method where and when a foreign company is allowed to use a manufacturing process, trademark, patent, trade secret or other items of value for a fee or royalty.
- (a) Exporting- (Direct and indirect)
 - (b) Direct investment
 - (c) Joint venture
 - (d) Franchising
 - (e) Licensing
- (xxiv) The stage where the customer is considering whether to try the innovation is called:
- (a) Interest
 - (b) Trial
 - (c) Evaluation
 - (d) Awareness
 - (e) Adoption
- (xxv) Marketing concept includes all but one of the following:
- (a) Organisation should strive to satisfy customers
 - (b) Attainment of organisation goals
 - (c) Marketing mix
 - (d) Public relation
 - (e) None of the above
- (xxvi) _____ is the stage in the life cycle of a product when it gets wide spread acceptance, growing sales and profit and witnesses competition.
- (a) Growth
 - (b) Maturity
 - (c) Decline
 - (d) Saturation
 - (e) Introduction

-
- (xxvii) _____ is one in which there are few potential competitive advantages and each is small. Here it is hard to differentiate the product or decrease manufacturing costs.
- (a) Stalelated Industry
 - (b) Fragmented Industry
 - (c) Volume Industry
 - (d) Specialized Industry
 - (e) None of the above
- (xxviii) _____ variables include gender, income, education, religion, race etc.
- (a) Geographic segmentation
 - (b) Demographic segmentation
 - (c) Psycho graphic segmentation
 - (d) Behavioural segmentation
 - (e) User status segmentation
- (xxix) Challenger's attack strategy involved in launching a higher-quality product and charging higher price than the leader is called:
- (a) Price discount strategy
 - (b) Improved services strategy
 - (c) Prestige goods strategy
 - (d) Distribution innovation strategy
 - (e) Product innovation strategy
- (xxx) _____ is not included in the 5-stage model of the consumer buying process.
- (a) Problem recognition
 - (b) Information search
 - (c) Evaluation of alternatives
 - (d) Actual purchase
 - (e) Purchase decision

SECTION B

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

- 2** Akoi Investment Limited is a stockbrokerage firm located on the busy Marina Street, the melting point of workers, businessmen and school goers in the industrialised part of Lagos.

It commenced business in 1981 and had since being struggling to remain in business with yearly break-even account score sheets for the past ten years. When recapitalization came into effect last two years, it become incumbent upon it to go public if it was to remain in business.

This forced the management to effect a change and in the process new hands were injected into its management. One of such new comers is Mr. Y. Gore a versatile marketer, holder of doctorate degree from Harvard University in America, fellow of the London and Nigeria Institutes of marketing with considerable experience of 35 years as deputy Managing Director in the brokerage industry.

It did not take Akoi time to pronounce him as its Chief Executive Officer and Managing Director. On assumption of duty, he quickly discovered that his firm is in the midst of competitors and potential customers. "My starting points are therefore "improved services" and "people" whom I must stimulate not bore, satisfy not frustrate and proffer solution to their problem" said Gore banging on his table. He therefore designed his operation based on four (4) special service areas to the people thus:

| | |
|---------------------------------------|--|
| What people see: | Architecture, lighting, colour, display, presentation and demonstration; good reception, blended with sense of humour. |
| What people hear: | Music, water, acoustics and other solemn sounds |
| What people smell: | Odours and fragrances |
| What people taste, touch, do and use: | Sampling and involvement, events, amenities and facilities, phone and personal call on customers. |

He employed a specialized decorator to put in place reflective lighting on marble exterior frontage with beautiful marble walls and admirable colour to match. At the centre of the marble wall is inscribed in pictorial design purported staff and customers in discussion and indication bubbled question from the staff thus: what company stock to buy or to sell? The wall also bears arrow showing the entrance.

On entry a smiling beautiful and attractive lady is met with two tea vending machines on the right hand side of her table she asks the visitor do you want it cold or hot. On the wall a top of her head is live and recorded electronic demonstration of activities in the stock exchanged market. Both sideways are displays of the most recent information on stocks exchanged and top gainers and losers.

Work starts early in the morning with soft underground local aboriginal music of yester-years for the interest of the retired, old, self employed and full time housewives who keep calling. This music changes to rock in 'the afternoon when the teens start coming after school and to high life in the late afternoon for the listening pleasure of the adult paying business visits after the day's work. With its aesthetic lighting interior walls wear admirable colours advertising the interior decoration. They are filled with sensory and pleasant fragrances and odours. In the midst of which are a number of men and women inside impressive custom bearing symbol of the firm and assurance that reads: "pick up your need and satisfaction here".

They are seated in readiness for deals. Before their tables are soft hefty easy-chairs beckoning on customers to seat on them. On the wall behind them and at the eye-level of standing customers are posters indicating specialized business of every seated staff thus: insurance stock, petroleum, multinational, food beverage and tobacco, banking, conglomerates, industrial/domestic and others. Behind the ninth and the tenth tables are labelled enquiries and tea corner respectively.

Believing there is little to do at the meet-the staff luncheon last year December Mr. Gore announced study loans to all members of staff below 40 years to enter for, study and write the Chartered Institute of Stockbrokers examinations. He promised them new forms of compensation plan and increment in salaries and allowances. He did not forget to tell the gathering that offices of field company marketing representatives had been created and occupiers shall report directly to the new department of field marketing operations (FMO) headed by Mr. Olabimtan who was the Deputy Marketing Manager.

Required:

- (i) Why is the Managing Director laying more emphasis on 'people'?
 - (ii) Discuss the marketing impact which the following have on the people, store and staff:
 - (a) Exterior store design
 - (b) Sight
 - (c) Lighting
 - (d) Colour
- Please turn over**
- (e) Display and presentation
 - (f) Sound
 - (g) Smell

- (iii) (a) What competitive position is Akoi presently?
- (b) What other specific optional strategies can the MD/CEO employ apart from that of improved services?
- (iv) Has the MD done enough to develop and remunerate his staff members?
- (v) If your answer is "no" what other actions do you advise he takes?

Total: 25 marks

SECTION C

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

- 3** Questionnaire is a structured research format or instrument designed to collect responses from the interviewees. Its ability to do what it is expected to do depends on how well it is constructed.

Required:

Discuss the components of a questionnaire and the guidelines required for its effective construction.

Total 15 marks

- 4** Churchill, Ford and Walker, 1993 studied and came up with a basic model of motivation saying that the higher the motivation the greater the workers effort, performance, rewards and satisfaction and that greater satisfaction will reinforce motivation.

Required:

After being well motivated, how can the output of motivation (performance) be evaluated among our marketing officers?

Total 15 marks

- 5** The Integrity Bank (Nig) plc, wants to expand her operations internationally. The proposed countries include Ghana, Cote D'voire, Togo and Republic of Benin.

Required:

Conduct an environmental study analysis for international marketing on any of these countries.

Total 15 marks

- 6** When should a financial service provider add a new product to its current assortment of products?

Total 15 marks

- 7** As a financial service provider, what in your own view are the impacts of the Internet on your markets?

Total 15 marks



CHARTERED INSTITUTE OF STOCKBROKERS

September 2008 Professional Examination Level 3

PAPER 3.4: REGULATIONS AND PRACTICE OF STOCKBROKING

Wednesday, September 24, 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) A quoted company's register of members will be closed from 23rd July to 7th August 2008. When will it be marked ex-div in respect of declared dividend?
- (a) 23rd July, 2008
 - (b) 7th August 2008
 - (c) 31st July 2008
 - (d) Any of the above
 - (e) None of the above
- (ii) In accordance with the NSE Rules and Regulations, when will an investor receive his contract note after a sale or a buy mandate authorized by him has been executed his stockbroker?
- (a) Within the Day T + 3 Transaction cycle
 - (b) On Day T + 3
 - (c) Before the end of the next working day
 - (d) Within 48 hours of the transaction
 - (e) None of the above
- (iii) Which of the following accounts must be maintained by a stockbroking firm?
- (a) A trading account
 - (b) A clients' current account
 - (c) A current account for the firm's use
 - (d) (a) and (b) only
 - (e) (a), (b) and (c)
- (iv) A stockbroking firm can trade without having sufficient funds in its account on a transaction day, Day T provided that:
- (a) Its account must be funded before the end of Day T
 - (b) Its account must be funded on or before Day T + 1
 - (c) Its account must be funded on or before Day T + 2
 - (d) Its account must be funded on or before Day T + 3
 - (e) Its account must be funded on or before Day T +5
- (v) Which of the following parties is not involved in e-Bonus payment to investors?
- (a) The Registrars
 - (b) The CSCS
 - (c) The Stockbrokers
 - (d) The NSE
 - (e) None of the above

- (vi) Which of the following requests is not valid in the regulations and practice of stockbroking?
- (a) A request by an investor to a stockbroking firm for cash payment of N47,000 being part of his sales proceeds.
 - (b) A request by an investor to a stockbroking firm for payment to him via a crossed cheque.
 - (c) A request by an investor to a stockbroking firm for payment to him via a bank draft.
 - (d) A request to pay the nephew of the investor.
 - (e) None of the above.
- (vii) The relevant SEC Rules and Regulations require that where Mr. A wishes to act for Mr. B in relation to the buying and selling of shares, then:
- (a) Mr. A must have a letter of authority executed by Mr. B
 - (b) Mr. B must have a power of attorney executed by Mr. A
 - (c) Mr. B must have a letter of authority executed by Mr. A
 - (d) Mr. A must have power of attorney executed by Mr. B
 - (e) Mr. A must have a power of attorney executed by Mr. B and also Mr. B must have a power of attorney executed by Mr. A
- (viii) The most important function of registrar of a quoted company is:
- (a) Remittance of withholding tax
 - (b) Organization of annual general meeting
 - (c) Payment of e-dividend
 - (d) Entertaining enquiries by shareholders
 - (e) Maintaining up-to-date register of members
- (ix) Approval to open an issue is granted by one of the following.
- (a) The Nigerian Stock Exchange
 - (b) Chartered Institute of Stockbrokers
 - (c) Securities and Exchange Commission
 - (d) Federal Ministry of Finance Incorporated
 - (e) None of the above
- (x) Mrs. Ibitoye holds a 70% shareholding in a quoted company and wishes to reduce her shareholding to 20%. Which of the following modes of public offering must she use?
- (a) Offer for subscription
 - (b) Private placement
 - (c) Rights issue
 - (d) Offer by introduction
 - (e) None of the above
- (xi) The prevailing most important enactment guiding the operators and regulators of the capital market is:
- (a) Investments and Securities Act of 1999
 - (b) Investments and Securities Act of 2004
 - (c) Investments and Securities Act of 2006
 - (d) Investments and Securities Act of 2007
 - (e) Investments and Securities Act of 2008

- (xii) The adjudicatory bodies in the Nigerian capital market do not include:
- (a) The Disciplinary Committee of Chartered Institute of Stockbrokers
 - (b) The Investigation Committee of NSE
 - (c) The Disciplinary Committee of Council of NSE
 - (d) The Administrative Processing Committee of SEC
 - (e) None of the above
- (xiii) The market control that regulates trading is administered by:
- (a) The CSCS
 - (b) The Stockbrokers
 - (c) The NSE
 - (d) The CIS
 - (e) SEC
- (xiv) Which of the following securities trading is not active in the NSE automated trading system:
- (a) Equities trading
 - (b) Bond trading
 - (c) Rights trading
 - (d) All of the above
 - (e) None of the above
- (xv) Miss Vailes Johnson has recently married and now wishes to be addressed as Mrs. Vailes Ike. By what means and by whom can her share certificates be converted to her marital name:
- (a) Through transmission by stockbrokers
 - (b) Through transmission by registrars
 - (c) Through endorsement by stockbrokers
 - (d) Through endorsement by registrars
 - (e) Through dematerialization by CSCS
- (xvi) The highest daily monetary penalty prescribed by SEC against capital market operators for infringing any SEC Rules and Regulations is:
- (a) N1,000 per day for the period the offence continues.
 - (b) N2,000 per day for the period the offence continues.
 - (c) N3,000 per day for the period the offence continues.
 - (d) N4,000 per day for the period the offence continues.
 - (e) N5,000 per day for the period the offence continues.
- (xvii) Where an investor is buying securities of a company for the first time, the stockbrokers must lodge the completed transfer form of the buyer with the Registrar of that company within _____ working days of the purchase transaction:
- (a) Two working days
 - (b) Three working days
 - (c) Fours working days
 - (d) Five Working days
 - (e) Ten Working days

- (xviii) Stockbroking firms are required to send to both SEC and NSE their financial statements and accounts on _____ basis.
- (a) Quarterly
 - (b) Semi-annually
 - (c) Every nine months
 - (d) Annually
 - (e) Monthly
- (xix) The current contribution required of stockbroking firms in relation to Investors Protection Fund and Trade Guarantee Fund respectively are:
- (a) N1m apiece
 - (b) N100,000.00 apiece
 - (c) N1m and N500,000.00 respectively
 - (d) N100,000.00 and N1m respectively
 - (e) N1m and N100,000.00 respectively
- (xx) The All-Share Index in the past six months up to 15th September 2008:
- (a) has experienced a slight slide
 - (b) has maintained relative stability
 - (c) has maintained a significant leap
 - (d) has fallen very significantly
 - (e) has remained the same
- (xxi) Which of the following statements is true:
- (a) When market capitalization increase, then the index must increase.
 - (b) When market capitalization decreases, then the index must decrease.
 - (c) the market capitalization can increase whereas the index can decrease.
 - (d) the market capitalization can decrease whereas the index can increase.
 - (e) (c) and (d) above.
- (xxii) Underwriting limit for non-bank securities firms is:
- (a) 2½ times shareholder's fund
 - (b) 5 times shareholder's fund
 - (c) 7½ times shareholder's fund
 - (d) 10 times shareholder's fund
 - (e) none of the above
- (xxiii) In raising funds from the capital market, one of the following may not be a party to the issue.
- (a) Issuing House
 - (b) SEC
 - (c) Reporting accountants
 - (d) Registrars
 - (e) Solicitors

- (xxiv) All but one of the underlisted factors affect prices of stocks in the market place.
- (a) Corporate performance
 - (b) Location of the company
 - (c) Market forces
 - (d) Market hearsay
 - (e) Government economic policies
- (xxv) Business-day or trading day means
- (a) A financial newspaper showing details of company performances.
 - (b) Any day other than Saturday, Sunday, and public holiday.
 - (c) Any day other than weekends but including public holiday.
 - (d) Any calendar day
 - (e) none of the above.
- (xxvi) What is a certificate of exemption?
- (xxvii) What is declaration of compliance?
- (xxviii) What does UVRCDs stand for in relation to debt securities?
- (xxix) During which period is rights trading permitted by SEC Rule 79?
- (xxx) What do you understand by Green Shoe Option?

SECTION B

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

- 2 (a)** John Harry, a middle age man of 35 years walked into Amat Stockbroking & Finance Company Limited with the following stocks to sell in February 2008. He claimed that the stocks belonged to his father who was bed-ridden in a private hospital.
- (i) 50,000 units of 50k Ordinary shares of Nestle Plc
 - (ii) 50,000 units of 50k Ordinary shares of Mobil Plc
 - (iii) 500,000 units of 50k Ordinary shares of NB Plc

He met an officer of the company who gave him transfer forms to pass to his father to complete.

After three days, he came back with the forms duly signed. The stockbroker prepared the Certificate Deposit Forms while John Harry opted to carry them to the Registrars to fast-track the verification processes.

Within a week, the stocks were verified and sold by the firm. Because of the urgency for cash needs, John Harry brought a letter of authority from his father to make cash payment in John's name. The company turned down this request. He pleaded further that the cheque be made in the name of Harry & Sons Nigeria Limited, his father's company and the request was obliged.

Six months after the transaction, a man led a team of detective to Amat Stockbroking & Finance Company Limited, alleging that those shares were stolen. Further investigations revealed that the addresses left by John Harry and the company name for receiving the payment were not genuine.

Required:

- (i) Identify four procedural errors committed by the company in dealing with John Harry. (6 marks)
- (ii) What are the basic Know Your Customer requirements that Amat Stockbroking & Finance Company Limited ought to have required from John Harry before the account was opened and the shares transacted upon? (2 marks)
- (iii) What regulatory framework did the owner of the stolen shares ought to have exploited before reporting the stolen shares to the law enforcement agent? (2 marks)
- (iv) What are the documents required by a stockbroking firm before a Corporate Account can be opened for a client? (3 marks)

- (b) You work in Alive Stockbrokers Limited. One day a customer walked into the office requesting to see a stockbroker in the firm. You heard him discussing with your Managing Director - a Chartered Stockbroker about private placement. The visitor claimed a friend gave him the photocopy of NewlyWeds Nigeria Limited private placement application form without any abridged prospectus.

He wanted to submit the form through your firm but the Managing Director refused on the grounds that:

- (i) the form was not directed to the person who brought it;
- (ii) it was not a public offer; and
- (iii) Alive Stockbrokers Limited was not a receiving agent to the offer.

Required:

- (i) Having listened to the discussion, do you agree or not with the view of the Managing Director and what are your justifications for your position? (5 marks)
- (ii) Distinguish between a private placement and a hybrid public offer for subscription. (5 marks)
- (iii) What are the legal implications of a private placement? (2 marks)

Total: 25 marks

SECTION C

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

- 3** KODELLAT Securities Limited is a dealing member of the Nigerian Stock Exchange (NSE) and has been in business for the past 15 years. Due to falling prices and lull in the capital market, the company defaulted in its financial obligations to both regulatory authorities and clients.

The Council of the Exchange thereafter appointed a committee to look into the case of default.

Required:

State the powers of Council of the Exchange in the event of default in accordance with Article 21 of Rules and Regulations of Nigerian Stock Exchange (NSE).

Total: 15 marks

- 4** (a) Conflicts/disputes relating to professional conduct between members shall be settled internally before reporting to external settlement. The Membership Regulations and Code of Conduct of the Chartered Institute of Stockbrokers do not allow the settlement of disputes on the pages of Newspaper, the law courts or through other avenues.

Required:

State the procedures for settling disputes among members as stated in the Institute's Membership Regulations and Code of Conduct. (5 marks)

- (b) The Securities and Exchange Commission recently launched the e-allotment in the Nigerian capital market.

- (i) What is e-allotment?
- (ii) What are the reasons for the introduction of e-allotment?
- (iii) How does e-allotment differ from e-IPO?
- (iv) State the process involved in e-allotment.
- (v) List the benefits of e-allotment.

(10 marks)

Total: 15 marks

- 5** "Nobody can consistently beat the market". The recent bearish run being experienced in the Nigerian stock market seems to confirm the above statement.

Required:

- (a) What are the factors responsible for the bearish run?
- (b) What are the possible corrective actions that may be taken to reverse the situation?

Total: 15 marks

- 6** Central Securities Clearing System Limited is a depository window in the capital market.

Required:

- (a) Enumerate the benefits of CSCS to investors.
- (b) State the functions of CSCS.

Total: 15 marks