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FOR CS EXECUTIVE EXAM PREPARATION

CS Executive 2023 Question Paper · Capital Market and Securities Laws

EXAM	YEAR	TYPE	SUBJECT
CS Executive	2023	Question Paper	Capital Market and Securities Laws

DATE

December 2023

NEW SYLLABUS

525

Roll No. .....

Time allowed : 3 hours ***Maximum marks : 100***

Total number of questions : 6 ***Total number of printed pages : 12***

NOTE : *1. Answer **ALL** Questions.*
2. All working notes should be shown distinctly.

PART–A

1. (*a*) **CASE-JVRS Limited :**

JVRS Ltd., an Indian Public Limited Company, is listed on BSE. The company was incorporated in 1991 and is leading manufacturer and marketer of dairy based branded foods in India. The company at the beginning focussing on only collection and distribution of milk. The company later on expanded its business and gained a reasonable market and company started offering diverse range of dairy based products which included fresh milk, ice cream, butter, mild cheese, ghee, milk powder etc. The company decided to raise the fund through offer for subscription of ₹ 10 crore and through prospectus of ₹ 5 crore in order to diversify the business.

Mr. J, one of the shareholder having 200 shares of the company had applied for rematerialisation of shares on January 12, 2023, which he bought through screen based trading. J wanted to trade the 200 shares on January 15, 2023 but he was unable

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to do so. The bonus shares were issued by the company on January 05, 2023. Mr. J has opened another Demat account on January 13, 2023.

Mr. V, one of the directors of the company, has felt that the market price of the share was steadily rising and is planning to take over another similar company. Due to this fact he knew that the share price of the company would increase after the announcement of takeover. Mr. V called one of his friends Mr. C and asked him to invest ₹ 2 crores in the shares of the company and promised that he will have surely capital gain. The share price went up and he earned profit of ₹ 50 lakh and it was shared equally with Mr. V. On regular inspection and by conducting enquiries of the brokers involved, the Securities and Exchange Board of India was able to detect this irregularity and imposed maximum penalty on Mr. V.

The company in 2023 diversified its business in share trading and hired Mr. R as an account executive and was participating along with other new brokers in a company training program, the objectives of which were to familiarise the participants with the procedures of the brokerage house, developing skills of share trading and provide an introduction to investment analysis and Management.

Before joining the firm, he was engaged in brokerage services. He graduated from a reputed University in India in Sociology and History and has not studied any business course due to lack of business background. Mr. R was interested in the investment training sessions. At the first meeting on investment analysis and management, the session leaders dealt with the importance of diversification and connoted that investors should

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make informed decision before investing in the shares of the company. He opined that the account executive dealt with entirely too much time on accounting treatment of individual securities.

Mr. R was able to grasp the general points brought out in the initial session but he realised that there are lot of the things left which he has to learn in detail. The session leader has used many unfamiliar terms like beta, different types of risks, coefficient of correlation. At the end of the particular lecture, Mr. R asked the instructor to provide some material to learn the terminology. The instructor has given him reading material as well as short exercise and examples to familiarise him with the concept of risk-return and later on the instructor provided some cases based reading material related to investment management issues. The instructor has given the detailed material of BSE-SENSEX and NSE-NIFTY. The analysis of the stock prices of BSE and NSE was also provided to him in order to calculate the volatility both absolutely and relative to market. During the training session, the participants examined historical risk and return information and interrelationships between assets available in the equity market.

Read the case carefully and answer the following questions :

What do you mean by 'Screen based trading' ? When was it started ? How fund raising from offer for subscription is different from prospectus ? How the two securities market mentioned in the case are different from each other ? Elaborate.

(*5 marks*)

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(*b*) State the penalties against persons who might be found guilty of offences under section 23 of the Securities Contract (Regulation) Act, 1956.

(*i*) Any person who fails to maintain books of accounts or records, as per the listing agreement or conditions, or bye-laws of a recognised Stock Exchange.

(*ii*) If any issuer make an excess dematerialisation or delivery of unlisted securities.

(*5 marks*)

(*c*) (*i*) What is the objective for which SAT is established ?

(*ii*) State the composition of Securities Appellate Tribunal ?

(*iii*) Does a Civil Court have jurisdiction to entertain any suit in respect of any matter for which an Adjudicating Officer appointed under the SEBI Act ?

(*iv*) Mention the time period for filing an appeal with Supreme Court.

(*v*) Why are special courts established by the Central Government ?

(*5 marks*)

(*d*) A startup working towards innovation of products, its turnover are 8, 10, 12, 15, 18 USD million for last 5 years since its incorporation. What is your opinion about eligibility of this SME to list on the recognised stock exchange in IFSC ?

(*5 marks*)

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Attempt all parts of either Q. No. 2 or Q. No. 2A

2. (*a*) Jethana Ltd is a listed public sector company since 2014. The company has applied for listing of new securities to BSE. The company is having minimum public shareholding of 15% in 2018. As a company secretary advise the company with respect to following :

(*i*) Whether the minimum public shareholding is as per Rule or it requires to be increased in due course of time.

(*ii*) What is the provision of the Rule with regard to minimum public shareholding ?

(*iii*) When Central Government can exempt from any or all of the provisions of minimum shareholding.

(*iv*) What is the rule 19(4) of Securities Contracts (Regulation) Rules, 1957 of application for listing of new securities ?

(*5 marks*)

(*b*) Financial Market Intermediaries are service providers and are an integral part of any financial system. Elucidate and mention the primary market intermediaries and secondary market intermediaries. When the applications for grant of certificate of Financial Market Intermediaries are rejected ?

(*5 marks*)

(*c*) Why International Financial Services Centres have assumed prominence in the Financial Services ecosystem ? Do you consider any necessity of IFSC for domestic economy ? How ?

(*5 marks*)

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(*d*) "Any person aggrieved by the order or decision of the recognised stock exchange or any other order made by the SEBI may prefer an appeal before this Securities Appellate Tribunal". Explain the statement.

(*5 marks*)

OR (Alternative question to Q. No. 2)

2A. (*i*) 'Private equity funds usually invest in more illiquid assets companies and as source of investment capital, private equity comes from High Net-worth individuals.' Elucidate the statement and enumerate the term 'high net-worth individuals' and types of Private Equity.

(*ii*) Explain the procedure for making application and recognition of stock exchange.

(*iii*) What is the purpose of Informal Guidance ? Who are the persons for making a request for Informal Guidance ? What are forms in which the informal guidance is sought ? What is the time period within which the request may be disposed off by SEBI ?

(*iv*) "A depository interfaces with the investors through its agents called Depository Participants". Discuss the statement and explain the characteristics of depository participants and how depository is different from custodian ?

(*5 marks each*)

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PART–B

3. (*a*) XYZ Ltd. an unlisted company and now wishes to expand its business. For expansion, company decided to bring an initial public offer. Referring to provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulation, 2018, advise the company :

(*i*) Eligibility requirements for an initial public offer.

(*ii*) What company will do if eligibility conditions are not met ?

(*2+3=5 marks*)

(*b*) Consider a mutual fund that manages a portfolio of securities worth ₹ 240 million. Suppose the fund owes ₹ 8 million to its investment advisors and owes another ₹ 2 million for wages, rent and another expenses. The fund has 5 million shares outstanding.

(*i*) What do you mean by NAV ?

(*ii*) How NAV is calculated ?

(*iii*) What was the net asset value of the fund ?

(*2+2+1=5 marks*)

(*c*) ABC Ltd. is a listed entity and having its board of directors. As the Company Secretary, suggest about the composition and role of audit committee.

(*5 marks*)

4. (*a*) RMM Ltd is a listed company engaged in automobile sector, manufacturing cars in India. Due to the growing demand of the cars in the market, the requirement of manufacturing more cars becomes essential. The competitors are also thinking in this line. The management of the company has the apprehension that the experienced

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employees may leave the company in order to get higher package. The CEO desires to issue Sweat Equity Shares to the employee to retain them.

You being the company secretary advise the management about issue of sweat equity shares to employees, maximum quantum and pricing of equity shares under SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

(*5 marks*)

(*b*) Shibu Ltd. and its directors had mobilised funds from investors through different land and plot allotment schemes which satisfied four requirements of a collective investment scheme as defined in section 11AA. It was noticed that these schemes were being carried out without obtaining registration from SEBI under section 12(1B).

(*i*) Explain the action to be initiated by SEBI on Shibu Ltd. and its directors.

(*ii*) What are the requirements of section 11AA for CIS under SEBI Act, 1992 ?

(*iii*) What are the provisions for registration and application for grant of certificate under SEBI Act, 1992.

(*5 marks*)

(*c*) HM Ltd is a public company with a paid up capital of ₹ 30 crores as per the latest audited balance sheet. The net worth of the company for the year ending 31st March 2023 is 59 crores. The company is listed on Bombay Stock Exchange (BSE) and National Stock Exchange. The Board of Director plans for voluntary delisting from National Stock Exchange.

As a company secretary advise the Board regarding the conditions and procedures for delisting where exit opportunity is not required and conditions and procedures for delisting where exit opportunity is required.

(*5 marks*)

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5. (*a*) An investor buy shares in a mutual fund for ₹ 400. At the end of the year, the fund distributes a dividend of ₹ 11.20 and after the distribution the net asset value of a share is ₹ 468.80. What would be the investor's return on the investment ?

(*5 marks*)

(*b*) Satyawan Ltd. is a public limited company, listed in Bombay Stock Exchange. The Board of directors are planning to buy back of shares. You being the CFO, calculate the maximum number of shares that can be bought back along with offer price and advise the board of directors about buy back of maximum possible shares at the maximum possible offer price. Current assets includes bank balance of ₹ 15,00,000/-.The balance sheet as at 31st March 2023 is given below :

Liabilities	**Amount (in ₹)**	**Assets**	**Amount (in ₹)**
3,00,000 Equity shares of ₹ 10 each	30,00,000	Fixed Assets	75,00,000
25,000, 12% Preference Share Capital	25,00,000	Investment	30,00,000
General Reserve	10,00,000	Current Assets	30,00,000
Profit & Loss Account	25,00,000		
Security Premium	15,00,000		
12% Debentures	20,00,000		
Sundry Creditors	10,00,000		
	1,35,00,000		1,35,00,000

(*5 marks*)

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(*c*) Sarala Ltd., public limited company is listed in Bombay Stock Exchange. Kamla is the Chief Financial Officer who works on the instruction of the Premlata. CEO of the Company. On the instruction of Premlata, Kamla has dealt in securities trading Kamla indulged in front running by using information received from Premlata for trading in some script and squared off trades along with trades of Premlata for making wrongful gain. Whether the action of Kamla is appropriate ? You are also required to mention the prohibition of certain dealings in securities and manner of service of summons and notices issued by the SEBI under SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulation, 2003.

(*5 marks*)

Attempt all parts of either Q. No. 6 or Q. No. 6A

6. Write short notes on the following :

(*a*) Green debt security

(*b*) Networth

(*c*) Transfer Agent

(*d*) Asset Management Company

(*e*) Red-herring Prospectus.

(*3 marks each*)

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OR (Alternative question to Q. No. 6)

6A. (*i*) Mr. P is working as Managing Director in ABC limited company. He holds following chairmanship directorship in the following :

(*a*) Whole time director in XYZ limited company.

(*b*) Managing director in KLM limited company.

(*c*) Member of Nomination and Remuneration committee of ABC Ltd.

You are required to advise him the limit of directorship.

(*5 marks*)

(*ii*) XYZ Limited is a listed company. It has constituted all committees in compliance with listing regulations. Its audit committee having 6 directors, out of which 5 directors are independent. In the meeting of audit committee 2 directors were present (1 non-executive and one independent). Is this audit committee meeting valid ?

(*5 marks*)

(*iii*) ABC Limited is a listed company. Its financial data as on 31st March, 2022 are as follows :

Authorised equity share capital	₹ 20 Crore
(2 Crore shares of ₹ 10 each)	
Paid up equity share capital	₹ 10 Crore
General reserve	₹ 6 Crore
Debenture redemption reserve	₹ 4 Crore

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The board of directors of your company passed resolution by circulation for buyback of shares to the extent of 8% of the company's paid-up share capital and free reserves.

(*a*) You are required to examine the validity of the proposal with reference to the provisions of the SEBI regulation.

(*b*) What will be your suggestion if buy back will be of 12% of the company's paid up share capital and free reserves ?

(*5 marks*)

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