

Roll No.....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 7

NOTE : Answer **ALL** Questions.

1. (a) XYZ & Associates a leading CS firm in Delhi, specialized in providing professional services, ranging from legal services & management consultancy services.
- Mr. A, a prominent businessman and lawyer by profession, approached XYZ & Associates requesting the incorporation of 4 private limited companies with ₹ 1,00,000 issued share capital for each company (i.e. total of ₹ 4,00,000) with the principal activities to invest, on the behalf of prominent investors, in the real estate property of Delhi NCR.
- XYZ & Associates performed full Know Your Client (KYC) verification of Mr. A, by obtaining all the required identification and economic profile data and also performed a full background check for the said individual as to identify any Politically Exposed Person, sanctions and adverse media positive matches. All the performed procedures did not identify anything suspicious or negative which would prevent the acceptance of Mr. A as client.
- XYZ & Associates got incorporated all the 4 companies, with Mr. A as the sole Beneficial Shareholder (BO) and immediately funds were deposited in the bank accounts of each of the 4 companies for ₹ 10,00,00,000 (i.e. total of ₹ 40,00,00,000). Each of the funds was shown as loans payable, for 1% interest, to a common investor Mr. P from Ghaziabad. The funds were then immediately invested in commercial property in Noida.

: 2 :

During a Regulatory monitoring inspection from Directorate of Enforcement, it is identified that Mr. P (the sole investor) is a Politically Exposed Person and has a criminal history and sentences by courts for embezzlement, money laundering, and being involved in a criminal organization.

XYZ & Associates is reported in the Disciplinary Committee of ICSI for not performing adequate KYC procedures and also the specific BO (Mr. A) and the sole investor (Mr. P) are reported by ICSI to Directorate of Enforcement.

In the light of the above answer the following :

- (i) What are the red flags were needed to be identified which might indicate money laundering activity in this case ? What are the risks and the potential threats that the XYZ & Associates may be faced with in this situation ? What steps may the CS firm undertake to mitigate its risks and possible exposure ?
(10 marks)
- (ii) What KYC/Due Diligence work the CS firm could have carried out and when ?
(10 marks)
- (iii) What are the functions of Directorate of Enforcement under Prevention of Money Laundering Act, 2002 ?
(10 marks)
- (b) Following information and figures are noticed from the Annual Accounts for the year ended 31st March, 2019 of MNP Limited, a listed company :
- (i) Authorized Shares Capital ₹ 10 crore comprising of one crore Equity shares of ₹ 10 each.

: 3 :

- (ii) Paid-up Share Capital of ₹ 4.5 crore comprising of 40,00,000 Equity shares of ₹ 10 each fully paid-up and 10,00,000 Equity shares of ₹ 10 each called and paid-up to ₹ 5 each. The total paid-up capital is paid up in cash.
- (iii) Securities Premium Account ₹ 10 crore.
- (iv) 2,50,000 fully convertible debentures of ₹ 100 each. These debentures are due for conversion on 30th June, 2019 in full into fully paid Equity shares of ₹ 10 each in the ratio of two equity shares for one debenture.
- (v) General Reserve ₹ 15 crore.
- (vi) Fixed asset revaluation reserves ₹ 2.5 crore.

It was further ascertained that the partly paid shares were made fully paid by 30th June, 2019. The directors of MNP Limited propose to issue bonus shares in the ratio of 1 : 1.

In the light of above answer the following :

- (1) Explain the procedure of issue of bonus shares by listed companies as per the SEBI (ICDR) Regulations 2009.
- (2) Advise the directors on the matter with reference to the guidelines issued by SEBI on bonus issue. What will be your advice, if the company has defaulted in the matter of payment of interest on fixed deposits ?

(10 marks)

(10 marks)

2. (a) M/s Bhola Guru Pvt. Ltd. is a small-size unlisted company, presently experiencing liquidity problems. The directors, keen on overcoming the difficulty by improving collections, etc., are exploring two alternatives.
- (i) Approximately 70% of annual sales are on credit basis. Normal credit period is 60 days, but many customers exceed this limit, and year end debtors are a true indicator. A scheme of 1.5% discount for payment in 10 days is proposed to be offered. The Company expects that at least half of credit customers would avail of this discount, and bad debts will also fall by 50%. Assume 365 days a year.
- (ii) Engage a debt factoring company. The factor will extend finance up to 90% of debts arising from credit sales; charge a fee of 2% on total annual credit sales. The factor will also levy finance charges of 11%. With this arrangement administration costs are expected to come down by ₹ 70,000. Bank overdraft rate for company is 10%.

Additional financial information is as follows :

Forecast for next year	₹ in '000
Sales	4850
Cost of Sales	2862
Bad Debts	48
PAT	325
Stock	455
Trade Debtors	846
Trade Creditors	550
Bank Overdraft	565
Equity Holders Fund	1575
Directors Loans	450

Evaluate each of the two alternatives, and select the best alternative for the company.

(10 marks)

: 5 :

- (b) The following is the information of Company Kingkong Limited listed on Bombay Stock Exchange (BSE) :
- (i) The paid up equity share capital of the company is ₹ 10,00,00,000 comprising of 1,00,00,000 equity shares of ₹ 10 each.
 - (ii) The promoters of the company viz. Mr. Narayanan members, relatives, associate companies are holding 55,00,000 equity shares, representing 55% of the total paid up capital of the company as on 31st March, 2013.
 - (iii) The promoters intend to acquire further 5% (500000 shares) of total share capital of the company under regulation 3(2) of the SEBI (Substantial Acquisition of Shares and Takeover) Regulation 2011 (hereinafter referred as “Takeover Regulations”) in the financial year 2015-16.
 - (iv) Further, they are desirous of increasing their holding by further 5% shares (500000 shares) in each financial year 2016-17, 2017-18 and 2018-19 in terms of the regulations without making any public announcement, by way of purchase from open market in normal segment of the Stock Exchange.
 - (v) The said acquisitions shall also not be through bulk/block deal/negotiated deal or Preferential allotment.

In light of the above information explain the following :

- (1) Can the promoters of the company acquire additional 5% (500000 shares) during the financial year 2015-16 as per regulation 3(2) of the Takeover Regulation ?
- (2) Can the promoters further acquire 5% additional shares as per regulation 3(2) of the Takeover Regulations in each Financial Year 2016-17, 2017-18 and 2018-19 till reaching the level 75% of the share capital of the company ?

(10 marks)

- (c) What do you understand by the term American Depository Receipts (ADRs) ? Explain its types and mechanism with the help of an example.

(10 marks)

3. After doing a course in online trading, Bharat started an online portal for stock trading under the name “Bharat Trading”. He met his school friend Bhavesh after a long time in a bank where Bhavesh had come to open a Demat account. Bharat urged Bhavesh to invest in the forthcoming IPOs of blue chip companies whereas Bhavesh was inclined to buy existing securities of the other companies to build his investment portfolio.

In the context of the above case :

- (a) Identify the *two* different types of capital market being referred to in the above paragraph.
- (b) State any *four* differences between the two different types of capital market.

(5 marks)

4. (a) What are Treasury Bills ? Explain its various types as issued by RBI.

(3 marks)

- (b) A Co-operative Bank wishes to buy 91 days Treasury bill on 22nd October, 2018 maturing on 6th December, 2018. The rate quoted by seller is ₹ 99.1589 per ₹ 100 face value.

Calculate its Yield to Maturity (YTM).

Assume : 365 days a year.

(2 marks)

: 7 :

5. (a) What is daily 'Mark to Market' settlement ?

(3 marks)

(b) A trader enters into a short futures contract to sell April Silver for ₹ 48,000 per kilogram on the MCX. The size of each contract is 5 kilogram. The initial margin is ₹ 25,000 and the maintenance margin is ₹ 20,000. Compute the futures price above which there will be a margin call ?

(2 marks)

6. What aspects SEBI shall take into account before granting a certificate of registration to a broker under SEBI (Stock Brokers & Sub-Brokers) Regulations, 1992 for admission on any Stock Exchange.

(5 marks)

————— o —————