Module Title: Financial Regulation
Level: Five
Time Allowed: Two hours plus 15 minutes reading time. Students must not commence answering the questions until the reading time has ended.

Instructions to students:

- Enter your student number **not** your name on all answer books.
- During the 15 minutes reading time, students **are** permitted to make notes on the examination paper but **not** on the answer book. Students should begin answering the questions **after** the reading time has ended.
- Answer **four** out of **six** questions.
- All questions are equally weighted. Where a question has more than one part the division of marks is stated.

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Answer **four** out of **six** questions:

**Question 1**

You are a trainee at MoneyWise Bank Ltd. One of your trainee colleagues has discussed a customer with you, a 19-year old university graduate, who wants to buy a £500,000 property with a £250,000 deposit payment in cash from an unverified source. You are aware that MoneyWise Bank Ltd is subject to the Money Laundering Regulations 2007 and therefore should carry out customer due diligence (CDD).

**a.** Define the term “customer due diligence (CDD)” and explain how it should be carried out.

**b.** Detail the steps that criminals use to launder money.

**c.** Evaluate the implications on the firm and the wider society if the transaction detailed above proceeded proved to be money laundering and not a genuine transaction.

(Total: 25 marks)

**Question 2**

The following authorities are entrusted with the financial services regulation in the UK:

- Bank of England (BoE)
- HM Treasury
- Financial Conduct Authority (FCA)
- Prudential Regulation Authority (PRA)
- Financial Policy Committee (FPC)

With reference to the core roles and objectives of the five authorities, evaluate the 2013 structural changes within the UK financial services.

(25 marks)
Question 3

Alfred and Deborah are planning to buy a house together. They are debating whether they should use the service of an independent mortgage adviser or approach a high street bank directly.

a. Evaluate the cost savings that may be made in approaching a bank direct.  
   (13 marks)

b. In the event the couple take advice from a mortgage adviser, describe the FCA rules regarding prescribed information and advice.  
   (12 marks)

(Total: 25 marks)

Question 4

The Retail Distribution Review (RDR) was aimed to identify and address the root causes of problems in the retail investment market. This wide reaching project was undertaken by the regulator to assess and, if necessary, change the future shape of the financial services industry.

Required:

a. Evaluate the significance of the three key points arising from the RDR, namely: *quality of advice, remuneration* and *advisers’ qualification*.  
   (10 marks)

b. Critically evaluate the opportunities and challenges facing the investment advice industry following implementation of the RDR.  
   (15 marks)

(Total: 25 marks)
Question 5

Peter is the finance director of Escot plc and owns a large shareholding in the company. He has just discovered that the company has fallen short of its profit forecast of £300 million. Prior to the announcement of the quarterly results tomorrow, he has decided to sell a substantial portion of his shares today. He has also told his sister Brenda, who owns shares in Escot plc, to sell some of her shares. At the same time, Jill, an unconnected personal investor, has just bought a substantial amount of Escot plc shares, basing her decision on the company’s profit forecast.

a. Summarise the key points of Part V of the Criminal Justice Act (CJA) 1993 relating to Insider Dealing.  
   (10 marks)

b. Analyse the above scenario from the perspective of Part V of the CJA 1993  
   (10 marks)

c. What advice would you give Jill if she says she intends to sue Peter and Escot plc, following the significant fall in the company share price?  
   (5 marks)

(Total: 25 marks)
Question 6

Since 1 January 2011, there are three European Supervisory Authorities (ESAs) working together with national authorities:

- The European Banking Authority (EBA)
- The European Securities and Markets Authority (ESMA)
- The European Insurance and Occupational Pensions Authority (EIOPA)

a. Describe the core activities of the three supervisory authorities and ESAs’ general objectives.

   (10 marks)

b. Evaluate the degree of independence that the UK regulatory authorities can maintain in supervising UK financial service firms, explaining the ways in which the ESAs can intervene in UK regulation.

   (10 marks)

c. Name three of the key directives coming out from the European Parliament and briefly explain their core purposes.

   (5 marks)

(Total: 25 marks)

End of Paper