Examination Period 3: 2018/19

Module Title: Financial Regulation
Level: Five
Time Allowed: Two hours plus fifteen minutes reading time

Instructions to students:
- Enter your student number not your name on all answer books.
- Students are encouraged to use the first fifteen minutes of the exam to read the questions carefully and to plan answers.
- Answer four out of six questions.
- All questions carry equal marks. Where a question is in parts the weightings are indicated.
- The use of calculators is not permitted.

<table>
<thead>
<tr>
<th>No. of Pages</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Questions</td>
<td>6</td>
</tr>
</tbody>
</table>
Answer **four** out of **six** questions.

**Question 1**

There are different forms of financial supervision.

**Required:**

a. What are the **two** main forms of financial supervision?  
   (5 marks)

b. What is the focus of each type of supervision?  
   (8 marks)

c. What kind of skills are needed for each type of supervision?  
   (7 marks)

d. In the UK, how are these two forms of supervision conducted?  
   (5 marks)

**Total: 25 marks**

**Question 2**

Asymmetric information presents an important challenge in the insurance industry.

**Required:**

a. Explain the role of moral hazard. Give an example.  
   (5 marks)

b. What are the mechanisms to contain moral hazard?  
   (7 marks)

c. Explain the role of adverse selection. Give an example.  
   (5 marks)

d. What are the mechanisms to reduce adverse selection?  
   (8 marks)

**Total: 25 marks**

**Question 3**

Using examples from the last financial crisis, define and explain financial stability and systemic risk.  

**Total: 25 marks**
Question 4

MiFID II is a revamped version of the Markets in Financial Instruments Directive, which is designed to offer greater protection for investors and inject more transparency into all asset classes: from equities to fixed income, exchange traded funds and foreign exchange.

Required:

a. Explain the main aims of the Directive. (10 marks)

b. Who will be affected by MiFID II. (8 marks)

c. Name the key benefits MiFID II is designed to bring to the market. (7 marks)

Total: 25 marks

Question 5

Many of the difficulties that the financial sector has faced in recent years have centered on ethical issues, both in retail and wholesale markets.

Required:

a. Name five of the ethical issues in the financial markets. (13 marks)

b. Using examples, explain how the FCA regulation on ethics could bring about positive impacts in the UK financial markets. (12 marks)

Total: 25 marks
**Question 6**

You are a trainee at a mortgage advice firm. One of your trainee colleagues has discussed with you about a case in which a 20-year old customer wants to buy a £500,000 property with a £300,000 deposit payment in cash from an unverified source. Your colleague thinks that mortgage brokers are not subject to the Anti-Money Laundering Regulations and wish to advise the customer to go ahead with the purchase.

**a.** What advice should you give to your colleague? (8 marks)

**b.** Explain the steps that criminals use to launder money. (7 marks)

**c.** Explain the implications on the firm and the wider society if the customer above succeeded in buying the house and laundering the money. (10 marks)

**Total: 25 marks**