

INDEX NUMBER.....

SIGNATURE.....



**CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI, GHANA**

CSUC SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

**SPECIAL SUPPLEMENTARY EXAMINATION, 2018/2019
ACCOUNTING AND FINANCE**

RESIT

CSBF 337: FINANCIAL REGULATIONS AND COMPLIANCE

AUGUST, 2019

TIME ALLOWED: 3HOURS

GENERAL INSTRUCTIONS TO CANDIDATES:

This paper is in three parts. Part A, B and C

- 1. Answer all the questions in Part A**
- 2. Answer only one question from Part B**
- 3. Answer all questions in part C**
- 4. Provide only your index number on the answer sheet**
- 5. No question paper should leave the examination hall. Submit both question paper and answer sheet to the invigilator**
- 6. A total of 100marks allocated as follows PART A 20marks, PART B 20marks, PART C 60marks**

PART A (COMPULSORY)**QUESTION ONE****CASE STUDY**

Read the case below and answer the questions which follow.

20marks

An Evaluation of New Banking Regulations in Ghana

The recent banking crisis in Ghana has amply demonstrated the need for updating the national and global regulatory framework for financial institutions. Given the pace of financial and technological innovations in these institutions, regulators and supervisors can hardly hope to ever get ahead of market developments. However, they should consistently adapt rules, regulation, and supervision to evolving market practices to avoid falling behind too much. However, this endeavour is fraught with difficulties: financial institutions actively participate in the regulatory process through lobbying activities, negotiate regulatory compromises which they hope will benefit them. Regulators and supervisory agencies have a hard time to attract the required financial expertise given the pay differential to the industry, a general unwillingness to pay for better enforcement of rules already on the books given widespread fiscal difficulties, etc. In the wake of the banking crisis, the government and Bank of Ghana are considering tightening the regulatory and supervisory standards. To not unduly penalize their own financial institutions, they are considering a coordinated response to the shortcomings revealed by the crisis, which regulators and supervisors will implement either through micro or macro prudential regulatory measures. As one of the approaches five banks have been merged to form the **CONSOLIDATED BANK GHANA LTD**. The question is not whether but when and how the regulatory landscape will shift and what actions the surviving banks should take to prepare for the new regime. As a senior member of a working party analyzing current regulatory trends and their effect on your bank, a top-ten global financial institution, help your bank to answer these questions.

- i. Explain the relevance of financial innovation to banks. **2 marks**
- ii. State two reasons behind the regulation of financial institutions in Ghana **2 marks**
- iii. Explain to your bank the difference between macro and micro prudential regulations.

2 marks

- iv. State any four reasons which have contributed to the collapse of these banks in Ghana
4marks
- v. Explain how the *concept of synergy* can be applicable to bank consolidation. **2marks**
- vi. Why would the regulators be so much concerned about capital Adequacy? **1 mark**
- vii. What are the major impediments to a successful overhaul of the regulatory foundations for the financial-services industry in Ghana? **2 marks**

PART B

Answer only **one** question from this part.

20marks each

QUESTION TWO

- a. The Banks and specialized deposit-taking ACT 2016 gives the Bank of Ghana the overall supervisory and regulatory authority in matters relating to deposit-taking business. Enumerate five (5) responsibilities of the Bank of Ghana under this Act.
5marks
- b. In the application for a license a person who seeks to carry on deposit- taking business shall apply in writing. State five (5) information that must be included in the write-up
5marks
- c. The Bank of Ghana shall not issue a license for an application unless the Bank of Ghana is satisfied with the *pre-requisites* for a license. State four (4) of these pre-requisites for a license. **4marks**
- d. The Bank of Ghana under section 12 of the Act 2016 has the authority to revoke the license of a Bank. State three (3) conditions under which the license of a bank can be revoked. **6marks**

QUESTION THREE

The parliament of Ghana through an Act established the National Pensions Regulatory Authority (NPRA); the National Pensions Act, 2008 (Act 766) and the National Pensions (Amendment) which saw the creation of a contributory three-tiered Scheme and the establishment of a Pension Regulatory Authority with the mandate to license, supervise, regulate, and monitor service providers.

- a. i. State two (2) objects of the three-tiered Scheme. **2marks**
ii. Enumerate three (3) functions of the NPRA **3marks**
- b. State and explain the components of the three-tiered pension scheme **6marks**
- c. Differentiate between the *Employer Sponsored Scheme (ESS)* and *Master Trust Scheme (MTS)* **1mark**
- d. i. State three (3) players in the management of the Scheme **3marks**
ii. With the aid of a Schematic diagram explain the summary of the contributions to this Scheme. **5marks**

PART C**60marks**

Answer all questions in this section

Provide simple, concise and precise answers to these questions

1. With the aid of a diagram explain the difference between *direct financing* and *indirect financing*. **2marks**
2. i. What is Business strategic planning? **1mark**
ii. State the difference between strategic planning and operational planning **2marks**
iii. State and explain the steps in strategic planning model? **2marks**

3. What is the main difference between *financial regulation* and *financial compliance*? **2marks**
4. i. Basel I for bank regulation stipulates that banks must maintain Tier 1 and Tier II capital equal to a minimum of 8% of risk-weighted assets. What is the difference between *Tier 1* and *Tier 2* capital? **2marks**

ii. State the three-pillar system on which Basel II was built. **3marks**

iii. Explain the main focus of pillar 2 under Basel III. **3marks**
5. State any three (3) permissible activities of a bank. **2marks**
6. State three (3) principles of bank lending **3marks**
7. i. State three (3) responsibilities of a bank compliance officer **3marks**

ii. State three (3) responsibilities of bank customers **3marks**
8. i. What is interest rate? **1mark**

ii. Explain the effect of interest rate risk on bank's profitability. **2marks**

iii. With the aid of a diagram explain briefly how interest rate is determined in an economy. **3marks**

iv. State three (3) determinants of nominal interest rate. **3marks**
9. i. Define *yield curve* **1mark**

ii. Under what condition(s) will maturity gap be zero? **1mark**

iii. What is the implication of zero maturity gap? **2marks**
10. What is the duration of a bond with a face value of GHC1000, 10% coupon, 3years to maturity with a YTM of 20% **3marks**
11. The existence of Asymmetric information is one of the reasons why regulation should be strengthened in the financial sector. Briefly comment on this statement. **2marks**
12. State four (4) types of regulations governments can impose on the financial sector **2marks**

13. The financial system allows *asset-liability transformation*. Briefly explain this statement. **1mark**
14. Briefly explain why regulators in the financial sector impose restrictions on competitions in financial institutions. **2marks**
15. Orchestra Ltd wants a 3-year loan of GHC500, 000 from a bank. The bank has already determined that Orchestra warrants a default risk premium (DRP) of 10%, a liquidity premium (LP) of 3% and a maturity risk premium (MRP) of 1.5%. Today is December 3rd. Inflation for the rest of this year is expected to remain at 2%. Next year's inflation is expected to be 2.5% and the following year's inflation is expected to be 3%. Today's report indicates that 30-day T-bills are currently yielding 2.3%. Calculate an appropriate interest for this loan? **8marks**