



Department of Commercial Accounting

FINANCIAL SERVICES OPERATIONS 3B

FSO33B3

Supplementary Assessment Opportunity

Date of Test: January 2018

Time: 3:00 hours

Marks: 100

Assessor: Yusuf Patel

Moderator: Thabo Gopane (Internal)
Gareth Knight (External)

INSTRUCTIONS:

- This paper consists of 7 pages (including the cover page).
- Start each question on a new page.
- Calculators are allowed
- Write neatly

Question	Topic	Marks	Time
1	Other investor services	14	25 minutes
2	Aspects of taxation	11	20 minutes
3	Risk	22	40 minutes
4	Islamic Finance	25	45 Minutes
5	Property Valuation	25	45 Minutes
		100	180 minutes

QUESTION 1 - (14 marks)

- 1.1) Within securities lending, the lender assumes certain risks. Identify these risks and provide four factors or precautions that may be used to mitigate this risk. (6)
- 1.1) Explain what is meant by a securities lending repo agreement and how the risk for the lender maybe reduced. (4)
- 1.2) Identify reasons why a lender or borrower would use securities lending (4)
- 1.3) Explain how sweep accounts and pooling works (3)
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QUESTION 2 - (11 marks)

- 2.1) A UK investor has purchased 15 000 shares in a company at a price of £17.00 per share on the 1st August 2017. The investor then purchased a further 10000 shares at £15.00 per share on the 15th August 2017.
- a) Calculate the capital gain if 18 000 shares were sold on the 20th August 2017 for £19. (2)
- b) Calculate the capital gain/loss if a further 800 shares were sold on the 28th August 2017 for £13. (4)
- 2.2) List the rules for taxpayers in the UK for the following scenarios.
- a) Capital gain on the sale of GILTs (1)
- b) Capital gain on the sale of Corporate bonds (1)
- c) Interest received from corporate bonds (1)
- d) GILT strips (2)
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QUESTION 3 - (22 marks)

- 3.1) Credit risk can simply be defined as when a counterparty fails to meet its obligations. Explain the various elements of credit risk in further detail. (6)
- 3.2) Explain how political risk can affect securities operations, and provide a local example. (3)
- 3.3) List five factors that contributes to operational risk (5)
- 3.4) SEC Rule 17f-5 relates to foreign custodians for US investment firms. Rule 17f-7 specifies that any depository employed by a US investment company or its custodian to hold its assets, must be an eligible foreign

depository. List four of the criteria that a foreign depository must meet to be considered eligible. (4)

3.5) Detail four issues global custodians must pay attention to when entering into contractual relationships with institutional investors, investment managers and sub custodians. (4)

QUESTION 4 - (25 marks)

4.1) Briefly explain the following types of Islamic finance contracts:

4.1.1) Wadia (1)

4.1.2) Ijara (1)

4.1.3) Salam (1)

4.1.4) Qard al Hassan (1)

4.1.5) Wa'd (1)

4.2) Explain the role of Islamic banks in society (5)

4.3) In Islamic finance for a product to be considered Shariah compliant it needs to be both valid and permissible, provide an example of a Islamic financial product that is considered to be controversial and explain why it is considered controversial. (4)

4.4) Explain what the primary functions are of the following bodies:

4.4.1) IIFM (2)

4.4.2) IDB (2)

4.4.3) IILM (2)

4.5) Briefly discuss the four criticisms against Islamic banking (4)

4.6) Briefly explain the concept of money in the Islamic finance context (1)

QUESTION 5 - (25 marks)

REQUIRED:

Select the correct option by crossing (✕) the appropriate letter on the **answer sheet** in the answer script.

1) The city planning department indicated a vacant residential lot located in the flood zone cannot be given a building permit. This site?

a. Has lost nearly all utility

b. Has become scarce

- c. Has lost all desirability
 - d. Has lost any effective purchasing power
- 2) The value to be estimated is set by?
- a. The property type
 - b. The client's problem
 - c. Highest and best use
 - d. The existing zoning classification
- 3) A cash-equivalent price means?
- a. The price reflects what a seller would accept as if he or she received cash at the closing
 - b. The price includes the seller paying no more than 5 points (5%)
 - c. The rights in realty can only be fee simple
 - d. It is assumed that the buyer did not have to get a mortgage
- 4) The value of a property to a particular user is known as?
- a. Market equal to cost
 - b. Value in exchange
 - c. Use value
 - d. Leasehold value
- 5) Ownership of real property by two or more parties with an undivided interest is called?
- a. Joint tenancy
 - b. Tenancy by the entirety
 - c. Sole proprietorship
 - d. Tenancy in common
- 6) When real property is sold by one person to another, the amount of money used to compensate the seller is called?
- a. The cost of the real property
 - b. The value of the real property
 - c. The price of the real property
 - d. The income of the real property
- 7) Demand for real estate may be affected by?
- a. Increasing population and employment.
 - b. Availability of mortgage financing
 - c. Increases in purchasing power
 - d. All of the above

- 8) A good's capacity to satisfy human desires or needs is known as?
- a. Creative demands
 - b. Utility
 - c. Functional obsolescence
 - d. Effective demand
- 9) The three approaches to value are?
- a. Market analysis, market consensus of opinion, and market research
 - b. Sales extraction, cost replication, and income multiplication
 - c. Sales comparison, cost, and income capitalization
 - d. Graphic analysis, linear regression, and statistical analysis
- 10) Market value can be described as?
- a. The price a person paid for real property
 - b. The cost of the land plus the cost of the building
 - c. The present worth of future benefits
 - d. Whatever someone will pay for something
- 11) Capital is?
- a. Accumulated wealth, a lump sum available for investment
 - b. The location of the centre of government
 - c. A death sentence
 - d. The building in which a legislative body meets
- 12) A real property interest held by a lessee and conveying the right of use and occupancy for a stated term and under certain conditions is called the?
- a. Leasehold estate
 - b. Fee simple estate
 - c. Leased fee estate
 - d. Determinable fee estate
- 13) The four forces that influence real estate values are?
- a. Social, economic, governmental, and environmental
 - b. Land, labor, capital, and green space
 - c. Eminent domain, police power, escheat and taxation
 - d. Governmental, social, taxation and economic conditions
- 14) Demand for housing is affected when?
- a. Builders cannot find enough building materials to complete the job
 - b. A new factory opens hiring several hundred new employees
 - c. Zoning laws restrict new construction to the point that not enough homes are build

- d. Builders do not recognize a downturn in the market
- 15) Stocks are?
- a. A punishment for bad valuers
 - b. A lending instrument
 - c. A low-risk, high-yield investment
 - d. An ownership interest in a company (i.e., shares)
- 16) Economic influences include all of the following except?
- a. Occupant income levels
 - b. Crime levels
 - c. Property rent levels
 - d. Property value levels
- 17) There are three approaches to estimating market value because?
- a. Purchasers have three alternative options available
 - b. SACPVP says all valuer's must use all three approaches to value
 - c. There are three ways to look at anything
 - d. It is required for good statistical significance
- 18) A trade area is?
- a. An area where property owners trade rather than sell the properties
 - b. A geographic area from which a retail centre will draw its customers
 - c. An area where the owners-inhabitants are generally employed
 - d. An area where an office-building owner will trade tenants with other office-building owners
- 19) You own a small rental house with two acres, and you marry a woman who has a son from a previous marriage. To provide for your new stepson, you give him a life estate in the small house. When your stepson turns 18, he can.
- a. Mortgage his interest
 - b. Rent the property out
 - c. Sell the life estate to someone else who will rent the property
 - d. All of the above
- 20) Servitudes are another division of property rights. They usually give the right?
- a. To cross over another person's property without permission
 - b. To access the property to perform a specific service
 - c. To use the property during the term of the lease to a tenant
 - d. To re-enter the property if the payments are not made on time to a lender
- 21) Supply of single-family residential properties is most affected by?

- a. An increase in employment in the area
 - b. A decrease in mortgage interest rates
 - c. An increase in the number of apartments built
 - d. An increase in the number of homes built
- 22) You hold?
- a. The leased fee interest
 - b. The leasehold interest
 - c. A sublease hold interest
 - d. A subleased fee interest
- 23) The valuation technique in which land and building are valued separately?
- a. The income capitalization approach
 - b. The sales comparison approach
 - c. Linear regression
 - d. The cost approach
- 24) A deed should be recorded because?
- a. Recording gives public notice of the transaction and sets the priority
 - b. It is required by law
 - c. Title does not pass until the deed is recorded
 - d. Recording makes the deed a legal document
- 25) You have owned a 40 ha parcel of land for the last 25 years. You paid the taxes on the real estate for the first 20 years but have not paid them for the last five?
- a. The state will get the taxes when the property is sold since the buyer will insist the taxes are paid prior to closing
 - b. The state has the right to sell the real estate to pay the back taxes
 - c. The state is powerless to collect these taxes
 - d. The state will sue you, and the courts will garnish your wages to be paid

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