Skillshort

Self-Study Preparation Pack

CS EXECUTIVE

Paper 5: Capital Market and Securities Laws (CMSL)

Mock Test 1 – Full Paper with Model Answers

ICSI Syllabus 2022 pattern: 100 marks · 3 hours (+15 minutes' reading) · Part I Capital Market (40 marks) Q1–Q2 · Part II Securities Laws (60 marks) Q3–Q6 · all questions compulsory · internal choice in Q2/Q2A and Q6/Q6A · Original Skillshort questions, figures verified in Python · Laws as amended up to 31 May 2026

Time: 3 hours | Max marks: 100 | Answer ALL questions | Model answers follow the paper

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This subject pack has 6 parts

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Prepared by Skillshort for self-study. Original explanations and questions; not an official ICSI publication. Items marked VERIFY should be checked against the latest official material.

Question Paper

Answer ALL questions. Cite the Act or SEBI regulation and the regulation number wherever possible.

Part I – Capital Market (40 marks)

Q1 Case study. Meera, a retail investor in Pune, bought shares through Swift Broking Ltd., a SEBI-registered stock broker. Swift delayed paying her sale proceeds for six weeks and ignored two e-mails. She lodged a complaint on SCORES. During its inquiry SEBI found that Swift had also used clients' funds for its own trading. SEBI issued summons to Swift's directors, and Swift is now considering applying for settlement.

(i) Explain how Meera's complaint is handled on SCORES, including the time limits and the second review. **(5 marks)**

(ii) What powers does SEBI have to call for information, summon persons and attach bank accounts during the investigation? **(5 marks)**

(iii) What penalties can be imposed on Swift for failing to redress grievances and for misusing client funds? Who adjudicates, and where does an appeal lie? **(5 marks)**

(iv) Explain the settlement mechanism under s.15JB of the SEBI Act, 1992, and state two cases where settlement is not allowed. **(5 marks)**

Q2 Answer the following (5 marks each):

(a) Distinguish the primary market and the secondary market.

(b) Explain the powers of the Central Government relating to recognition of stock exchanges under the Securities Contracts (Regulation) Act, 1956.

(c) "A depository is deemed to be the registered owner of securities." Explain under s.10 of the Depositories Act, 1996, and state the rights of the beneficial owner.

(d) State the functions of the International Financial Services Centres Authority (IFSCA).

OR Q2A Answer the following (5 marks each):

(a) What are credit rating agencies? State their general obligations.

(b) Explain the categories and net-worth requirements of merchant bankers after the SEBI (Merchant Bankers) (Amendment) Regulations, 2025.

(c) Distinguish an investment adviser and a research analyst.

(d) Explain the T+1 settlement cycle and the role of a clearing corporation.

Part II – Securities Laws (60 marks)

Q3 Answer the following (5 marks each):

(a) Arya Infotech Ltd. has net tangible assets of ₹2.5 crore, average operating profit of ₹18 crore over the last three years and net worth of ₹30 crore. Is it eligible for an IPO under Regulation 6(1) of the SEBI (ICDR) Regulations, 2018? If not, how can it make an IPO?

(b) After Arya's IPO, its post-issue paid-up capital will be ₹100 crore and the promoters will hold 35%. State the minimum promoters' contribution and the lock-in on their shares.

(c) Explain the pricing rule and lock-in for a preferential issue of equity shares by a listed company whose shares are frequently traded.

Q4 Answer the following (5 marks each):

(a) Prism Ltd., a top-1,000 listed company, has 10 directors; its non-executive chairperson is the promoter's brother. How many independent directors must it have under Regulation 17 of the LODR Regulations? State other board-composition rules.

(b) State the time limits for disclosure of material events under Regulation 30 of the LODR Regulations.

(c) Kunal, a director of Prism Ltd., bought 5,000 shares in March and sold them in June at a profit of ₹2 lakh. Has he violated the PIT Regulations? What follows?

Q5 Answer the following (5 marks each):

(a) Alpha Capital holds 20% of Beta Ltd. (5 crore shares) and agrees to buy another 6% at ₹300 a share. Does this trigger an open offer? State the minimum offer size and compute the escrow amount.

(b) State the conditions and steps for voluntary delisting of equity shares under the SEBI (Delisting of Equity Shares) Regulations, 2021.

(c) A scheme has equity shares ₹60 crore, government securities ₹15 crore, corporate bonds ₹10 crore, cash ₹2 crore and accrued interest ₹0.5 crore; accrued expenses ₹0.4 crore and payable for purchases ₹1.6 crore; 4 crore units outstanding. Compute NAV per unit. An investor bought units at ₹18.50, received a dividend of ₹1.20 and the NAV is now ₹20.10 – compute the holding-period return.

Q6 Write short notes on (3 marks each): (a) Unpublished price sensitive information; (b) Frequently traded shares; (c) Green debt securities; (d) ASBA and SCSBs; (e) Duties of trustees of a mutual fund.

OR Q6A Answer the following (5 marks each):

(a) State the conditions and prohibitions for a buy-back of shares by a listed company.

(b) What is a collective investment scheme under s.11AA of the SEBI Act? Which arrangements are excluded?

(c) State the main conditions for an employee stock option scheme under the SEBI (SBEB and Sweat Equity) Regulations, 2021.

Model Answers

SOLUTION Q1 (i) SCORES – complaint handling

- Investor first approaches the **entity** (Swift); if not resolved or no reply in **21 days**, she files on **SCORES** (within 3 years of the cause) VERIFY.
- The complaint is auto-routed to the entity and to the **designated body** (the stock exchange for a broker). The entity must resolve and upload an action-taken report within **21 calendar days**.
- If the investor is not satisfied she may ask for a **first review** by the designated body within 15 days; the designated body reviews within **10 days**.
- **Second review by SEBI**: if still dissatisfied, she may seek SEBI's review within 15 days; SEBI may direct the entity, or take enforcement action.
- Unresolved disputes can go to the **Online Dispute Resolution (ODR) portal** (conciliation and arbitration through MIIs).

SOLUTION Q1 (ii) SEBI's investigation powers

- **s.11(2)(i)/(ia)**: call for information and records from any person, bank or authority relating to transactions in securities.
- **s.11C**: investigating authority may require production of books and examine any person on **oath**; may **search and seize** with a magistrate's order.
- **s.11(3)**: powers of a **civil court** – discovery, production of documents, **summoning and enforcing attendance**, examination on oath, inspection of books, commissions.
- **s.11(4)**: interim measures – suspend trading, restrain persons, **impound proceeds**, **attach bank accounts** for up to one month (extendable with court order) VERIFY.
- Failure to comply with summons attracts penalty under **s.15A** and prosecution under s.24.

SOLUTION Q1 (iii) Penalties, adjudication and appeal

- **s.15C** – failure to redress investor grievances: **₹1 lakh per day** of failure, up to **₹1 crore**.
- **s.15F** (stock broker) and **s.15HB** (residual) – misuse of clients' funds: s.15HB up to **₹1 crore**; also **s.15HA** if fraudulent – ₹5 lakh to ₹25 crore or 3 times profit, whichever higher.
- SEBI can also **suspend or cancel** registration under the intermediaries regulations and direct **refund** under s.11B.
- Penalties are imposed by an **adjudicating officer** (s.15I) after a hearing; appeal to the **Securities Appellate Tribunal within 45 days** (s.15T); then to the **Supreme Court within 60 days** on a question of law (s.15Z).

SOLUTION Q1 (iv) Settlement under s.15JB

- A noticee may apply for **settlement** of proceedings that have been or may be initiated, by paying a settlement amount and/or other terms, under the **SEBI (Settlement Proceedings) Regulations, 2018**.
- Application is made within **60 days** of the show-cause notice (later with higher amount); settlement amount is set by a formula; a High Powered Advisory Committee recommends; SEBI's panel of whole-time members decides; the settlement order is not appealable (s.15JB(3)).
- **Not allowed** for: fraudulent and unfair trade practices or **insider trading** causing substantial market impact or loss to investors; **front-running**; failure to make an **open offer**; defaults causing substantial losses; repeated defaulters within a period VERIFY.
- Swift's misuse of client funds is a serious default – settlement may be refused.

SOLUTION **Q2**

(a)

Basis	Primary market	Secondary market
Purpose	New securities issued – capital raised by the issuer	Existing securities traded between investors
Parties	Issuer and investors	Buyers and sellers through brokers
Price	Fixed or book-built by the issuer	Market-determined
Place	No fixed place (offer document)	Stock exchange platform
Effect	Adds to company's capital	Provides liquidity; no capital to company

(b) Under the SCRA: **s.3–4** – a stock exchange applies for **recognition**; the Central Government (powers delegated to SEBI) grants it if rules are in the interest of trade and the public; **s.5** – recognition may be **withdrawn** after hearing; **s.6** – call for periodical returns and direct **inquiries**; **s.7** – annual report; **s.7A–8** – approve or direct amendments of rules and bye-laws; **s.11** – **supersede the governing board** of an exchange; **s.12** – suspend business of an exchange for up to 7 days in an emergency; **s.13** – contracts in notified areas are void unless between members of a recognised exchange. Most powers are now exercised concurrently by SEBI.

(c) s.10(1) – the depository is deemed the **registered owner** only to effect **transfer of ownership** on behalf of the beneficial owner; **s.10(2)** – it has **no voting or other rights**; **s.10(3)** – the **beneficial owner** has all rights and benefits and is subject to all liabilities – dividends, voting, bonus, rights. Transfer is by book entry; securities are fungible (s.9).

(d) IFSCA (IFSCA Act, 2019) is the unified regulator of financial products, services and institutions in an **IFSC** (GIFT City). Functions: regulate banking, insurance, capital market and fund products in the IFSC; **register and regulate** intermediaries and exchanges there; recommend financial products and services to the Central Government; promote ease of doing business; collect fees; protect investors. It has the powers of RBI, SEBI, IRDAI and PFRDA within the IFSC.

SOLUTION Q2A

(a) A **credit rating agency** rates securities on the issuer's ability to pay (SEBI (Credit Rating Agencies) Regulations, 1999). Promoters must be a public financial institution, scheduled bank, foreign bank, multilateral agency or a company with 5 years' experience in rating; minimum **net worth ₹25 crore** VERIFY. Obligations: code of conduct; written agreement with the client; continuous monitoring of ratings during the life of the security; disclose rating rationale and methodology; avoid conflicts of interest (no rating of promoter/associates); keep records 5 years; appoint a compliance officer; grievance redress.

(b) After the 2025 amendment, merchant bankers are **Category I** (all permitted activities incl. main-board issue management) with **net worth ₹50 crore** and **Category II** (other than main-board equity issues) with **net worth ₹10 crore** NEW. Non-permitted activities must be hived off to a separate entity; minimum revenue from permitted activities over a block of years is required VERIFY; a compliance officer and an underwriting limit (20 times liquid net worth) apply.

(c)

Basis	Investment adviser	Research analyst
Service	Personalised advice on investing for consideration	Research reports, recommendations on securities to a wide audience
Regulations	SEBI (IA) Regulations, 2013	SEBI (RA) Regulations, 2014
Client agreement and risk profiling	Mandatory; suitability	Not personalised
Fee limits	Fee caps per family	Fee caps for individual clients VERIFY
Segregation	Advice separate from distribution	Research separate from trading/IB activities

(d) In **T+1**, trades are settled one working day after the trade date – funds and securities move through the **clearing corporation**, which acts as central counterparty: it novates trades, guarantees settlement through the **settlement guarantee fund**, collects margins, and runs risk management. Optional same-day (T+0) settlement is available for specified scrips VERIFY.

SOLUTION Q3 (a) IPO eligibility – Reg 6

Reg 6(1) needs **all** of: net tangible assets **≥ ₹3 crore** in each of the preceding 3 years (max 50% monetary assets); average operating profit **≥ ₹15 crore** over 3 years with profit in each; net worth **≥ ₹1 crore** in each of 3 years; name-change conditions. Arya has NTA **₹2.5 crore** – it **fails** Reg 6(1). It can make an IPO under **Reg 6(2)** by allotting **at least 75%** of the net offer to **QIBs** (retail not more than 10%, NII not more than 15%), and must refund if QIB portion is not subscribed.

SOLUTION Q3 (b) Promoters' contribution

Minimum promoters' contribution = 20% × ₹100 crore = **₹20 crore** – locked in for **18 months** from allotment (3 years if issue proceeds are mainly for capital expenditure)

Excess holding = 35% − 20% = 15% (₹15 crore) – locked in for **6 months**

Locked-in shares may be pledged only with banks/NBFCs for loans to the company; they are transferable among promoters subject to continuing lock-in; the depository marks them "non-transferable" where lock-in cannot be created NEW.

SOLUTION Q3 (c) Preferential issue – pricing and lock-in (ICDR Chapter V)

- Price **not less than the higher of**: the **90-trading-day** VWAP and the **10-trading-day** VWAP preceding the **relevant date** (30 days before the general meeting); a higher price applies if the articles provide a valuation method.
- Special resolution; allotment within **15 days** of approval; full consideration before allotment.
- **Lock-in**: promoters – **18 months**; others – **6 months**; pre-preferential holding of allottees locked in too.
- If allotment results in change of control, a registered valuer's report is needed.

SOLUTION Q4 (a) Board composition – Reg 17

- Top-1,000 listed entity: at least **6 directors**, at least **one independent woman director**; at least **half non-executive**.
- Chairperson is non-executive **but related to the promoter** → at least **half the board independent** (Reg 17(1)(b) proviso). With 10 directors, Prism needs **5 independent directors**.
- Top-1,000: chairperson and MD/CEO to be separate persons and not related (top-500, as amended) VERIFY; ID tenure and continuation of non-executive director over 75 years by special resolution.
- Board meets at least **4 times a year**, gap not more than **120 days**; quorum one-third or 3, whichever higher.

SOLUTION Q4 (b) Reg 30 time limits

- **Board meeting outcomes** (dividend, buy-back, results, fund raising): within **30 minutes** of closure of the meeting.
- Events **originating within** the entity: within **12 hours**.
- Events **not originating within** (e.g. regulatory action, litigation): within **24 hours**.
- Updates until the event is resolved; disclosures on the company website for 5 years; verify **market rumours** (top-250) within 24 hours.

SOLUTION Q4 (c) Contra trade

Under **Schedule B** of the PIT Regulations, designated persons (including directors) must not enter into an **opposite transaction within 6 months** of a previous trade (**contra trade**). Kunal bought in March and sold in June – within 6 months → **violation** (unless the compliance officer granted relaxation for reasons recorded, which cannot be given to circumvent). **Consequence**: the profit of **₹2 lakh is disgorged** and remitted to SEBI's **Investor Protection and Education Fund**; the company may take disciplinary action (wage freeze, suspension) and report to the stock exchange; SEBI may levy penalty under **s.15HB**. Trades during the **trading window closure** would be a separate violation.

SOLUTION Q5 (a) Open offer

- Holding goes from 20% to **26%** – crosses the **25% trigger** (Reg 3(1) SAST) → **open offer** mandatory.

Offer size = at least **26%** of total shares = 1.3 crore shares × ₹300 = **₹390 crore**

Escrow (Reg 17) = 25% of first ₹500 crore = 25% × 390 = **₹97.5 crore**

Escrow is opened at least 2 working days before the detailed public statement; offer price under Reg 8 – highest of negotiated price, VWAP paid by acquirer in 52 weeks, highest price in 26 weeks, and 60-day VWAP.

SOLUTION Q5 (b) Voluntary delisting – key steps

- **Initial public announcement**; Board approval after a **due-diligence report** of a peer-reviewed company secretary.
- **Special resolution** by postal ballot – votes of **public shareholders in favour at least twice** the votes against.
- In-principle approval of the stock exchange; detailed public announcement; letter of offer.
- Price discovered through **reverse book building** (or a fixed-price route, as amended VERIFY); the acquirer may make a **counter offer**.
- Offer succeeds if the promoter group's holding reaches **90%** of shares; payment within prescribed days; residual shareholders can tender for one year.
- Not allowed within 3 years of listing from a public issue, or if the promoter has sold shares in the previous 6 months.

SOLUTION Q5 (c) NAV and HPR

Total assets = 60 + 15 + 10 + 2 + 0.5 = ₹87.5 crore

Net assets = 87.5 – (0.4 + 1.6) = ₹85.5 crore

NAV per unit = 85.5 ÷ 4 = **₹21.375**

HPR = (20.10 – 18.50 + 1.20) ÷ 18.50 = 2.80 ÷ 18.50 = **15.14%**

SOLUTION Q6 Short notes

(a) UPSI – information relating to a company or its securities, **not generally available**, which on becoming available is likely to **materially affect the price**: financial results, dividends, change in capital structure, mergers, acquisitions, delistings, disposals, changes in KMP, material events under LODR. It may be shared only for legitimate purposes, recorded in the **structured digital database**.

(b) Frequently traded shares – shares of a listed company whose **annualised trading turnover** on a stock exchange in the 12 calendar months before the relevant month is **at least 10%** of the total number of shares (SAST and ICDR definitions). Pricing rules in preferential issues, open offers and delisting differ for frequently and infrequently traded shares.

(c) Green debt securities – debt securities whose proceeds are used for **green projects** (renewable energy, clean transport, climate-change adaptation, pollution control, biodiversity) under the NCS Regulations; disclosures on project selection, use of proceeds tracking, third-party review or certification; and a ban on **greenwashing**. Blue and yellow bonds are sub-categories.

(d) ASBA and SCSBs – Application Supported by Blocked Amount: the investor's money stays in the bank account and is **blocked**, not debited, until allotment; mandatory for public issues. Self-Certified Syndicate Banks accept ASBA forms, block funds and transfer them on allotment. UPI is used for individual investors.

(e) Trustees of a mutual fund – hold the fund's property in trust; ensure the AMC acts in the interest of unit holders and follows the regulations and the trust deed; review the AMC's transactions and conflicts; at least two-thirds independent; report to SEBI half-yearly; can remove the AMC with SEBI approval.

SOLUTION Q6A

(a) Buy-back (s.68 Companies Act and SEBI Buy-back Regulations, 2018): authorised by articles; Board resolution up to **10%**, special resolution up to **25%** of paid-up capital + free reserves; equity shares bought back ≤ 25% of paid-up equity in a year; post buy-back **debt-equity ≤ 2 : 1**; shares fully paid; through **tender offer** (open-market route through stock exchanges phased out from 1 April 2025); escrow; completion within one year. **Prohibitions:** no buy-back through subsidiaries or investment companies; not while in default of deposits, debentures or term loans; no buy-back within **one year** of the previous one; no further issue of the same kind within **one year** (except bonus, ESOP, conversion); promoters cannot deal in shares during the buy-back period.

(b) s.11AA: any scheme in which contributions are **pooled** and used for the scheme with a view to **profits or income**, the contributors **do not have day-to-day control**, and the property is managed by a person on their behalf; a pool of **₹100 crore or more** is deemed a CIS. **Excluded:** schemes of co-operative societies, insurance contracts, deposits under the Companies Act, chit funds, mutual funds, provident and pension funds, Nidhis, and schemes regulated by other regulators.

(c) ESOS: approved by **special resolution**; administered by a **compensation committee** (majority independent); minimum **vesting period one year**; options are not transferable; no options to **promoters or promoter group** or to independent directors; disclosures in the Board's report and at the general meeting; company to follow the accounting guidance (Ind AS 102); shares issued on exercise are not locked in; secondary acquisition through a trust limited to 2% a year VERIFY.