Skillshort

Self-Study Preparation Pack

CS EXECUTIVE

Paper 5: Capital Market and Securities Laws (CMSL)

Mock Test 2 – 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

Contents

Question Paper 2

Model Answers 4

This subject pack has 6 parts

1 Chapter-wise notes

2 Important topics & weightage

3 Past papers: trends & links

4 Mock tests + solutions

5 Chapter practice questions

6 Last-week plan & strategy

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. NovaX Exchange Ltd. wants recognition as a new stock exchange. Its promoter, a fintech group, plans to hold 30% of the exchange's equity. NovaX also wants to clear trades through its own clearing corporation and has been told it must have a robust cyber-security framework before it starts trading.

(i) What are the rules on ownership and shareholding of a recognised stock exchange under the SECC Regulations? Can the promoter hold 30%? **(5 marks)**

(ii) Explain the role of a clearing corporation and the settlement guarantee fund. **(5 marks)**

(iii) What cyber-security and operational-risk safeguards does SEBI require of market infrastructure institutions? **(5 marks)**

(iv) What penalties apply under ss.23C–23E of the SCRA for failures by a stock exchange or its members? **(5 marks)**

Q2 Answer the following (5 marks each):

(a) Explain the objectives and functions of SEBI under s.11 of the SEBI Act.

(b) State the offences and penalties under s.20 of the Depositories Act, 1996.

(c) What is a Special Purpose Acquisition Company, and how can it list in the IFSC?

(d) Explain the role of a custodian of securities.

OR Q2A Answer the following (5 marks each):

(a) Explain the impact of the RBI's monetary policy on the stock market.

(b) Distinguish currency derivatives and commodity derivatives.

(c) State the obligations of a registrar to an issue and share transfer agent under the 2025 Regulations.

(d) What is an exchange-traded fund? Why is it less risky than buying a single share?

Part II – Securities Laws (60 marks)

Q3 Answer the following (5 marks each):

(a) Orbit Ltd. made a rights issue. Explain renunciation of rights entitlements and the timelines for a rights issue.

(b) State the conditions for a bonus issue by a listed company under the ICDR Regulations. Can an announced bonus be withdrawn?

(c) Which companies can list on the Innovators Growth Platform, and what are the main relaxations?

Q4 Answer the following (5 marks each):

(a) Explain the approval of related party transactions by the audit committee, including omnibus approval, under Regulation 23 of the LODR Regulations.

(b) The company secretary of Galaxy Ltd., a listed company, resigned on 15 November. What must the company do under the LODR Regulations and the Companies Act?

(c) What must be recorded in the structured digital database under Regulation 3(5) of the PIT Regulations?

Q5 Answer the following (5 marks each):

(a) Glory Ltd. (face value ₹10; paid-up capital ₹200 crore; free reserves ₹600 crore; secured loans ₹1,100 crore) proposes a buy-back by tender offer at ₹500 a share. Compute the maximum buy-back under a Board resolution and under a special resolution, and the escrow required for a buy-back of ₹200 crore.

(b) A unit holder bought units at NAV ₹25.40; received a dividend of ₹0.80; the NAV now is ₹27.18. Compute the holding-period return. A scheme with average net assets of ₹500 crore charged expenses of ₹8.75 crore – compute its expense ratio and state what may be charged.

(c) Explain the "discovered price" in a delisting offer and the counter-offer mechanism.

Q6 Write short notes on (3 marks each): (a) Obligations of debenture trustees; (b) Mule accounts; (c) Disqualifications of mutual fund trustees; (d) Social bonds; (e) Specialised Investment Fund.

OR Q6A Answer the following (5 marks each):

(a) A sponsor wants to set up a mutual fund under the SEBI (Mutual Funds) Regulations, 2026 but has no five-year profit record. Advise.

(b) What prohibitions apply under Regulation 3 and 4 of the PFUTP Regulations, 2003? Give four examples of manipulative practices.

(c) Green Earth Plantations Ltd., a collective investment management company, wants to launch a plantation scheme. State the main conditions for a CIS scheme.

Model Answers

SOLUTION Q1 (i) Ownership of a stock exchange – SECC Regulations, 2018

- At least **51%** of paid-up equity must be held by the **public**; no person resident in India may hold, directly or indirectly, more than **5%** (a stock exchange, depository, bank, insurance company or public financial institution may hold up to **15%**) VERIFY.
- Persons resident outside India: up to **49%** in aggregate (FDI and FPI); FPI individual limit below 5%.
- Acquisitions of 2% or more need SEBI approval; "fit and proper" criteria apply to shareholders.
- **Conclusion:** the promoter **cannot hold 30%**; it must bring its holding down to **5%** (or 15% if it is an eligible institution), within the period SEBI allows.

SOLUTION Q1 (ii) Clearing corporation

The clearing corporation **clears and settles** trades: it becomes the **central counterparty** (novation), computes obligations, collects **margins**, settles funds and securities through clearing banks and depositories, and manages defaults. The **Core Settlement Guarantee Fund** (contributions by the clearing corporation, the exchange and members) guarantees completion of settlement even if a member defaults. Exchanges cannot clear their own trades – a separately recognised clearing corporation is required.

SOLUTION Q1 (iii) Cyber security and operational risk

- Board-approved **cyber security and cyber resilience policy** (identify, protect, detect, respond, recover); a **Chief Information Security Officer**; Technology and Cyber-security Committees.
- Protect **confidentiality, integrity and availability**: access controls, encryption, network segmentation, security operations centre, vulnerability assessment and penetration testing.
- **Business continuity** and disaster recovery sites, periodic DR drills; RTO and RPO limits; reporting of incidents to SEBI and CERT-In within **6 hours** VERIFY.
- Annual system audit; SEBI's Cybersecurity and Cyber Resilience Framework (CSCRF) for regulated entities VERIFY.

SOLUTION Q1 (iv) Penalties under the SCRA

- **s.23C** – failure by a stock broker to **redress investor grievances**: ₹1 lakh per day, up to ₹1 crore.
- **s.23D** – failure to **segregate** clients' securities or money, or using them for self or another client: up to ₹1 crore.
- **s.23E** – failure to comply with **listing conditions** or delisting conditions, or grounds of delisting: **₹5 crore to ₹25 crore** for the company, stock exchange or person VERIFY.
- Adjudication under s.23-I; appeal to SAT; offences under s.23 are punishable with imprisonment up to 10 years or fine up to ₹25 crore.

SOLUTION Q2

(a) s.11(1): protect the interests of **investors**, **promote the development** of and **regulate** the securities market. **s.11(2)**: regulate stock exchanges and intermediaries; register and regulate collective investment schemes and mutual funds; promote self-regulatory organisations; prohibit **fraudulent and unfair trade practices** and **insider trading**; regulate substantial acquisitions and takeovers; investor education; inspections and audits; levy fees; research. s.11A – issue of capital and disclosure; s.11B – directions (including disgorgement); s.11C – investigation; s.11D – cease-and-desist orders.

(b) s.20 – whoever contravenes or attempts or abets contravention of the Act or regulations is punishable with **imprisonment up to 10 years**, or **fine up to ₹25 crore**, or both. Penalties for specific failures under **s.19A–19H**: failure to furnish information (₹1 lakh per day, up to ₹1 crore), failure to redress grievances, delay in dematerialisation or issue of certificates, failure to reconcile records. Offences may be **compounded** under s.22A by SAT or a court.

(c) A **SPAC** is a company with no operating business that raises money through an IPO to **acquire a target** business within a set period. SPACs can list on a stock exchange in the **IFSC** under the **IFSCA (Issuance and Listing of Securities) Regulations, 2021**: minimum issue size (USD 50 million VERIFY), sponsor holding, 90% of proceeds in an escrow account, business combination within **3 years**, shareholders' approval of the combination with a redemption option for dissenting shareholders.

(d) A **custodian** (SEBI (Custodian) Regulations, 1996) keeps securities and assets of clients (mutual funds, FPIs, AIFs) in safe custody, collects benefits (dividends, interest, rights, bonus), maintains accounts and reconciles them, and reports to clients. Net worth **₹50 crore**; separate accounts for each client; no conflict with the client's business; internal controls and audit; a sponsor-associated custodian for a mutual fund only if the MF Regulations 2026 conditions are met.

SOLUTION Q2A

(a) Lower **repo rate** and higher liquidity reduce borrowing costs and discount rates → corporate profits and valuations rise → stock prices tend to rise; tighter policy (higher rates, CRR) has the opposite effect, raises bond yields and may cause foreign outflows. Policy also affects inflation expectations, the rupee and sector-wise performance (banks, real estate, autos are rate-sensitive).

(b)

Basis	Currency derivatives	Commodity derivatives
Underlying	Exchange rates (USD-INR, EUR-INR etc.)	Agricultural, metals, energy
Regulator	RBI and SEBI jointly	SEBI (since 2015 merger of FMC)
Use	Hedge foreign-exchange exposure	Hedge price risk of producers and users
Settlement	Cash-settled in INR	Cash or physical delivery

(c) RTAs must hold certificate of registration; **net worth ₹50 lakh** (2025 Regulations); maintain records of holders, transfers and transmissions; process requests (transmission, transposition only in demat); resolve investor grievances within **21 days**; have a compliance officer; follow cyber-security norms; and act on behalf of the issuer under a written agreement.

(d) An **ETF** is a mutual fund scheme whose units track an index or commodity and are **listed and traded** like shares. It is less risky than a single share because it **diversifies** across all index stocks – company-specific (unsystematic) risk is spread; costs are low; it is transparent and liquid; only market risk remains.

SOLUTION Q3

(a) Rights entitlements (REs) are credited in **demat** form; shareholders who do not want to subscribe may **renounce** by selling REs on the stock exchange or off-market before the issue closes. Timelines: record date notice; issue open for at least **7 days** and at most **30 days**; letter of offer dispatched in advance; allotment and listing within the time fixed (fast-track process reduces timelines) VERIFY. An issuer may make a rights issue only if it complies with the listing conditions and promoters are not wilful defaulters or fugitive economic offenders.

(b) Bonus issue (ICDR Chapter IX): authorised by articles; out of free reserves, securities premium or CRR (not revaluation reserves); **no default** in payment of interest or principal on fixed deposits or debt securities, or statutory dues of employees; partly paid shares made fully paid; implemented within **2 months** of Board approval (one month in some cases) if no shareholders' approval needed VERIFY; not in lieu of dividend. Once announced, a bonus **cannot be withdrawn** (Reg 293(5)).

(c) IGP is for start-ups and technology-intensive companies: at least **25%** of pre-issue capital held by eligible investors (QIBs, angel investors, family trusts etc.) for at least one year, or 10% as allowed VERIFY; no Reg 6(1) profitability test; allotment only to institutional and non-institutional investors; minimum application ₹2 lakh VERIFY; lock-in on pre-issue capital 6 months; may migrate to the main board after conditions are met.

SOLUTION Q4

(a) All RPTs need **prior approval of the audit committee** (only independent directors vote). **Omnibus approval** may be given for repetitive transactions for one year: criteria laid down; maximum value per transaction and in aggregate; review at least quarterly; transactions not foreseen up to ₹1 crore each. **Material RPTs** (above ₹1,000 crore or 10% of consolidated turnover, whichever lower) need **shareholders' approval** by ordinary resolution with related parties not voting. Half-yearly disclosure of RPTs to the exchanges.

(b) A listed company must have a **qualified company secretary as compliance officer** (Reg 6). Galaxy must: disclose the resignation to the exchanges within **24 hours** (Reg 30); fill the vacancy of whole-time KMP within **6 months** under **s.203(4)** of the Companies Act (LODR now requires the compliance officer vacancy to be filled within **3 months**) VERIFY; file **DIR-12** with the RoC within 30 days; and designate an interim compliance officer.

(c) Reg 3(5): the Board must ensure a **structured digital database** containing the **nature of UPSI** shared, the **names of persons** who shared it and with whom it was shared, with **PAN** or other identifier; maintained internally, with time-stamping and audit trail so that it cannot be tampered with; kept for **8 years** (or longer if investigation is pending).

SOLUTION Q5 (a) Buy-back limits (₹ crore)

Paid-up capital + free reserves = 200 + 600 = 800

Board resolution (10%) = 80 crore ÷ ₹500 = **16 lakh shares**

Special resolution (25%) = 200 crore ÷ ₹500 = **40 lakh shares**

Debt-equity test = minimum equity 1,100 ÷ 2 = 550; possible reduction 800 − 550 = 250 → 50 lakh shares (not binding)

Equity-shares test = 25% of 20 crore shares = 5 crore shares (not binding)

Escrow for ₹200 crore = 25% of first ₹100 crore + 10% of the balance = 25 + 10 = **₹35 crore**

SOLUTION Q5 (b) HPR and expense ratio

HPR = (27.18 − 25.40 + 0.80) ÷ 25.40 = 2.58 ÷ 25.40 = **10.16%**

Expense ratio = 8.75 ÷ 500 = **1.75%** of average net assets

Chargeable: investment management fee, trustee fee, custodian, registrar, audit, marketing and distribution within the total expense ratio limits (slab-wise by AUM); brokerage and transaction costs within caps; GST on fees. Expenses above the limit are borne by the AMC.

SOLUTION Q5 (c) Discovered price and counter offer

The **discovered price** is the price at which the acquirer's holding reaches **90%** through **reverse book building** – the price at which the maximum shares are tendered. The acquirer may accept it, or if it is not acceptable, make a **counter offer** within 2 working days, at a price not less than the **book value** and the **indicative price** (floor price) VERIFY; the offer is successful only if the 90% threshold is reached at the counter-offer price.

SOLUTION Q6 Short notes

(a) Debenture trustees – registered with SEBI; call for reports on use of funds; ensure **security is created** and asset cover maintained; monitor covenants; take steps on default (enforcement, inter-creditor agreement); convene meetings of debenture holders; inform stock exchanges of defaults; carry out due diligence before issue.

(b) Mule accounts – bank or demat/trading accounts opened or used in another person's name to route money or trades for fraud, front-running or manipulation. SEBI and the exchanges require KYC re-verification, monitoring alerts, and action against brokers; such trades are treated as **fraudulent** under PFUTP.

(c) Disqualifications of MF trustees – a person is not eligible if he is an associate, sponsor, director or officer of the AMC; has been convicted of moral turpitude or an economic offence; is not of high integrity (not "fit and proper"); is a trustee of another MF (unless independent and approved); at least two-thirds must be independent.

(d) Social bonds – debt securities whose proceeds finance **social projects** (affordable housing, food security, health, education, employment for vulnerable groups); disclosure of the project and impact, use-of-proceeds tracking, third-party review; may be listed on the **Social Stock Exchange** segment when issued by not-for-profit organisations VERIFY.

(e) Specialised Investment Fund (SIF) – a new product under the MF framework for sophisticated investors: **minimum investment ₹10 lakh**, investment strategies between MFs and PMS (long-short, sector rotation), managed by an MF with a track record and **NISM-certified** fund manager NEW.

SOLUTION Q6A

(a) Under **Reg 5** of the MF Regulations 2026 the sponsor can qualify under **Route 2** without the profit record: key personnel with **combined 30 years'** experience; AMC **net worth ₹150 crore** at registration (maintained at ₹100 crore, ₹50 crore after five profitable years); the sponsor's shareholding of ₹150 crore is **locked in for 5 years**; sponsor contributes at least 40% of AMC net worth; fit-and-proper test. If it wants only **passive schemes**, it may apply under the lighter **MF Lite** framework NEW.

(b) Reg 3 prohibits buying, selling or dealing in securities in a **fraudulent** manner, using manipulative or deceptive devices, and engaging in acts that operate as fraud on any person. **Reg 4** prohibits manipulative, fraudulent and unfair trade practices, such as: (1) **circular trading** and **synchronised trades** creating false volume; (2) **price rigging** and painting the tape; (3) **front running** by intermediaries or others; (4) spreading **false or misleading information** (including on social media) to induce trading; (5) mis-selling of units; (6) **pump and dump**; (7) mule-account trades. Penalty: s.15HA – ₹5 lakh to ₹25 crore or 3 times profits.

(c) CIS Regulations, 1999: only a **registered CIMC** (net worth ₹5 crore VERIFY) may launch a scheme; scheme appraised by a credit rating agency; **trustee** appointed (independent); offer document filed with SEBI; scheme closed-ended, minimum duration 3 years VERIFY; land/plantation title in the name of the trustees; insurance of assets; no guaranteed returns; units listed; investors' money kept in a separate account; periodic disclosure and valuation; winding up on default.