Skillshort

Self-Study Preparation Pack

CS EXECUTIVE

Paper 5: Capital Market and Securities Laws (CMSL)

Chapter-wise Practice Questions with Answers

Quick-check MCQs for all 18 lessons (a self-test only – the CS Executive paper is fully descriptive) and exam-style descriptive questions with model answers · Laws as amended up to 31 May 2026 (incl. SEBI (Mutual Funds) Regulations 2026)

36 quick-check MCQs | 12 descriptive questions | Regulation numbers and time limits

Contents

How to use this set	2	1. Basics of Capital Market	2
2. Secondary Market in India	2	3. Securities Contracts (Regulation) Act, 1956	2
4. SEBI	2	5. Depositories and Participants	3
6. Securities Market Intermediaries	3	7. IFSCA	4
8. Issue of Capital and Disclosure Requirements	4	9. SBEB and Sweat Equity	5
10. Non-Convertible Securities	5	11. LODR	5
12. Substantial Acquisition of Shares and Takeovers	6	13. Prohibition of Insider Trading	6
14. PFUTP	7	15. Delisting	7
16. Buy-back of Securities	7	17. Mutual Funds	7
18. Collective Investment Schemes	8		

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.

How to use this set

EXAM TIP **Do the MCQs first as a recall check. Then write each descriptive answer in 8–9 minutes for 5 marks: regulation and number → threshold or time limit → application → conclusion and penalty.**

1. Basics of Capital Market

1. Which is a money-market instrument?

(a) Equity share
(b) Commercial paper
(c) Debenture of 5 years
(d) REIT unit

2. An ETF reduces mainly:

(a) systematic risk
(b) unsystematic risk
(c) interest-rate risk
(d) inflation risk

2. Secondary Market in India

3. The settlement cycle for equity trades in India is:

(a) T+3
(b) T+2
(c) T+1 (with optional T+0)
(d) T+5

4. The guarantee for completion of settlement comes from:

(a) SEBI
(b) the Core Settlement Guarantee Fund of the clearing corporation
(c) the issuer
(d) the depository

QUESTION **Explain the regulatory framework of the secondary market in India. (5 marks)**

SOLUTION **Answer**

(1) **SCRA, 1956** and **SCRR, 1957** – recognition of exchanges, listing, contracts; (2) **SEBI Act, 1992** – SEBI regulates exchanges and intermediaries; (3) **Depositories Act, 1996** – demat holding and transfer; (4) **SECC Regulations, 2018** – ownership and governance of exchanges, clearing corporations; (5) **LODR, PIT, PFUTP, SAST** regulations – conduct of listed companies and investors; (6) **Stock Brokers Regulations 2026**, clearing and margin rules, risk-management circulars; (7) exchanges' bye-laws and surveillance; (8) RBI for currency and interest-rate derivatives; (9) investor protection through SCORES, ODR and investor protection funds.

3. Securities Contracts (Regulation) Act, 1956

5. The power to recognise a stock exchange is under:

(a) s.4 SCRA
(b) s.11 SEBI Act
(c) s.10 Depositories Act
(d) s.73 Companies Act

6. Penalty for failure to comply with listing conditions (s.23E SCRA) is:

(a) up to ₹1 crore
(b) ₹5 crore to ₹25 crore
(c) ₹10 lakh
(d) imprisonment only

4. SEBI

7. An appeal against an SEBI order lies to SAT within:

(a) 30 days (b) 45 days
(c) 60 days (d) 90 days

8. Penalty for failure to redress investor grievances (s.15C) is:

(a) ₹1 lakh per day, max ₹1 crore (b) ₹10 lakh flat
(c) ₹25 crore (d) 3 times profit

QUESTION **Explain the settlement mechanism under s.15JB of the SEBI Act. (5 marks)**

SOLUTION **Answer**

A noticee may file a **settlement application** for proceedings initiated or likely to be initiated, under the SEBI (Settlement Proceedings) Regulations, 2018, usually within **60 days** of the show-cause notice. The settlement amount follows a formula; an Internal Committee and the **High Powered Advisory Committee** review; a panel of whole-time members passes the order, which is **not appealable** (s.15JB(3)). Defaults with substantial market impact – insider trading, front-running, fraud causing large losses, failure to make an open offer – are generally not settled. Non-compliance with the settlement order revives the proceedings.

5. Depositories and Participants

9. The depository is the registered owner only for the purpose of:

(a) voting
(b) dividends
(c) effecting transfer of ownership
(d) all rights

10. Offences under s.20 of the Depositories Act are punishable with imprisonment up to:

(a) 1 year (b) 5 years
(c) 10 years (d) life

6. Securities Market Intermediaries

11. Net worth of a Category I merchant banker after the 2025 amendment is:

(a) ₹5 crore (b) ₹10 crore
(c) ₹25 crore (d) ₹50 crore

12. Under the Stock Brokers Regulations 2026, a stock broker:

(a) may accept cash from clients up to ₹50,000
(b) cannot accept cash from clients
(c) may accept cash for margin
(d) may accept cash with SEBI approval

QUESTION **Your company wants to become a SEBI-registered intermediary. What general conditions must it meet? (5 marks)**

SOLUTION Answer

Under the **SEBI (Intermediaries) Regulations, 2008** and the specific regulations: (1) apply in the prescribed form with fees; (2) meet the **fit and proper** criteria (integrity, reputation, no conviction or winding-up, no debarment) for the applicant, its directors, KMP and controlling shareholders; (3) **net worth** and infrastructure as per the specific regulation; (4) qualified, NISM-certified staff; (5) appoint a **compliance officer**; (6) investor grievance redress mechanism and SCORES registration; (7) cyber-security framework; (8) pay annual fees, keep records, submit to inspection; (9) take prior SEBI approval for change in control.

7. IFSCA

13. IFSCA was established under:

(a) SEBI Act, 1992
(b) IFSCA Act, 2019
(c) SEZ Act, 2005
(d) FEMA, 1999

14. A SPAC listed in the IFSC must complete its business combination within:

(a) 1 year
(b) 2 years
(c) 3 years
(d) 5 years

8. Issue of Capital and Disclosure Requirements

15. Minimum promoters' contribution in an IPO is:

(a) 10% of post-issue capital
(b) 20% of post-issue capital
(c) 25% of pre-issue capital
(d) 51%

16. Under Reg 6(2), the minimum allocation to QIBs is:

(a) 50%
(b) 60%
(c) 75%
(d) 90%

QUESTION Distinguish an IPO and an FPO, and state who cannot make an IPO. (5 marks)

SOLUTION Answer

An **IPO** is an unlisted company's first offer of shares to the public, after which the shares are listed; an **FPO** is a further public offer by a **listed** company. Eligibility for an IPO is under Reg 6 (profitability or QIB route); an FPO under Reg 103. **Ineligible for IPO (Reg 5):** issuer, promoters, promoter group or directors **debarred** by SEBI; a promoter or director who is a promoter or director of another company debarred by SEBI; issuer or promoter or director a **wilful defaulter** or **fraudulent borrower**; promoter or director a **fugitive economic offender**; outstanding convertible securities (except ESOPs and fully paid convertibles to be converted before the RHP).

QUESTION List the Qualified Institutional Buyers under the ICDR Regulations. (5 marks)

SOLUTION Answer

Reg 2(1)(ss): mutual funds, venture capital funds, AIFs and foreign venture capital investors registered with SEBI; FPIs (other than individuals, corporate bodies and family offices); public financial institutions; scheduled commercial banks; multilateral and bilateral development financial institutions; State industrial development corporations; insurance companies registered with IRDAI; provident funds and pension funds with corpus of at least **₹25 crore**; National Investment Fund; insurance funds of the armed forces and Department of Posts; systemically important NBFCs.

9. SBEB and Sweat Equity

17. Minimum vesting period for options under the SBEB Regulations is:

(a) 6 months (b) 1 year
(c) 2 years (d) 3 years

18. Sweat equity of a listed company is valued by:

(a) a merchant banker
(b) an independent registered valuer
(c) the auditor
(d) SEBI

10. Non-Convertible Securities

19. Under the NCS (Amendment) Regulations 2026, a "retail individual investor" invests up to:

(a) ₹50,000 (b) ₹1 lakh
(c) ₹2 lakh (d) ₹5 lakh

20. A trust deed for secured debentures is executed with:

(a) the stock exchange (b) the debenture trustee
(c) SEBI (d) the RoC

QUESTION **State the obligations of debenture trustees under the NCS framework. (5 marks)**

SOLUTION **Answer**

(1) **Due diligence** before the issue on assets and security; (2) ensure the **security is created** and registered and the asset cover maintained; (3) monitor the issuer's compliance with covenants and the **use of funds**; (4) call for periodic reports and certificates from the issuer and statutory auditor; (5) on **default**, inform the exchanges and debenture holders, convene meetings, enforce security, sign the inter-creditor agreement; (6) keep a **recovery expense fund** check; (7) redress grievances of holders; (8) disclose on its website.

11. LODR

21. Outcome of a board meeting must be disclosed to the exchanges within:

(a) 30 minutes (b) 12 hours
(c) 24 hours (d) 2 days

22. A material RPT needs:

(a) Board approval only
(b) shareholders' approval with related parties not voting
(c) SEBI approval
(d) audit committee only

QUESTION **Explain the role of a company secretary under the LODR Regulations. (5 marks)**

SOLUTION Answer

The CS is the **compliance officer** (Reg 6): (1) ensures conformity with the regulations in letter and spirit; (2) co-ordinates with SEBI, exchanges and depositories; (3) ensures **correct and timely disclosures** (Reg 30, results, shareholding pattern, corporate governance report); (4) monitors **investor grievances** and SCORES; (5) maintains the structured digital database for PIT and frames the code of conduct; (6) acts as secretary to the Board and committees; (7) secretarial compliance report and annual **secretarial audit** (Reg 24A); (8) the vacancy must be filled within **3 months** VERIFY.

12. Substantial Acquisition of Shares and Takeovers

23. An open offer is triggered when an acquirer's holding reaches:

(a) 15% (b) 20%
(c) 25% (d) 26%

24. The minimum size of an open offer is:

(a) 20% (b) 25%
(c) 26% (d) 51%

QUESTION A promoter group holds 62% and buys 3% in April and 2.5% in December of the same financial year. Advise. (5 marks)

SOLUTION Answer

Under **Reg 3(2)**, an acquirer holding 25% or more (but below the maximum permissible non-public shareholding) cannot acquire more than **5%** of voting rights in a **financial year** without an open offer. 3% + 2.5% = **5.5%** → the December acquisition crosses 5% → **open offer** is triggered (gross acquisitions are counted). Disclosures: **Reg 29(2)** – change of **2%** or more within **2 working days**. Also check the **75%** maximum non-public shareholding under SCRR (minimum public shareholding).

13. Prohibition of Insider Trading

25. A designated person cannot do a contra trade within:

(a) 1 month (b) 3 months
(c) 6 months (d) 12 months

26. The trading window reopens:

(a) on the day results are declared
(b) 48 hours after UPSI is made public
(c) after 7 days
(d) at the AGM

QUESTION What is UPSI? Explain continual disclosures under the PIT Regulations. (5 marks)

SOLUTION Answer

UPSI (Reg 2(1)(n)) – information on a company or its securities not generally available which is likely to materially affect the price: financial results, dividends, change in capital structure, mergers, demergers, acquisitions, delistings, disposals, expansion, KMP changes, material events. **Continual disclosure (Reg 7(2))**: promoters, members of the promoter group, designated persons and directors must disclose to the company within **2 trading days** acquisitions or disposals exceeding **₹10 lakh** in value in a calendar quarter; the company informs the stock exchange within **2 trading days** of receipt.

14. PFUTP

27. Front running is:

(a) legal if by a broker
(b) a fraudulent and unfair trade practice
(c) allowed for mutual funds
(d) insider trading only

28. The penalty for fraudulent trade practices (s.15HA) is up to:

(a) ₹1 crore
(b) ₹10 crore
(c) ₹25 crore or 3 times profit
(d) ₹50 lakh

15. Delisting

29. Voluntary delisting succeeds when the acquirer's holding reaches:

(a) 75%
(b) 80%
(c) 90%
(d) 100%

30. Votes of public shareholders in favour must be at least:

(a) equal to votes against
(b) twice the votes against
(c) three times the votes against
(d) 75% of all votes

16. Buy-back of Securities

31. Buy-back by a Board resolution is limited to:

(a) 5%
(b) 10%
(c) 25%
(d) 50%

32. After a buy-back, a company cannot make a further issue of the same kind for:

(a) 6 months
(b) 1 year
(c) 2 years
(d) 3 years

17. Mutual Funds

33. The SEBI (Mutual Funds) Regulations 2026 came into force on:

(a) 1 January 2026
(b) 14 January 2026
(c) 1 April 2026
(d) 1 June 2026

34. An equity-oriented scheme must invest in equity at least:

(a) 50%
(b) 65%
(c) 75%
(d) 90%

QUESTION **Explain the structure of a mutual fund in India. (5 marks)**

SOLUTION Answer

A mutual fund is a **trust** (Indian Trusts Act) registered with SEBI. **Sponsor** – sets up the fund, contributes at least 40% of AMC net worth, meets eligibility (Route 1 or Route 2). **Trustees** (trustee company or board) – hold the property in trust for unit holders, supervise the AMC; two-thirds independent. **AMC** – manages the schemes; net worth ₹50 crore (Route 1) or ₹150 crore (Route 2); half the board independent. **Custodian** – holds securities. **RTA** – unit-holder records. Unit holders are the beneficial owners. The **trust deed**, **investment management agreement** and SEBI registration bind the structure.

QUESTION **A scheme has net assets of ₹85.5 crore and 4 crore units. Compute NAV. If an investor bought at ₹19.80 and NAV is now ₹21.375 with no dividend, compute the return. (5 marks)**

SOLUTION Answer

NAV = 85.5 ÷ 4 = **₹21.375**

Return = (21.375 − 19.80) ÷ 19.80 = **7.95%**

18. Collective Investment Schemes

35. A pooling arrangement is deemed a CIS under s.11AA if the corpus is:

(a) ₹10 crore or more (b) ₹50 crore or more
(c) ₹100 crore or more (d) any amount

36. Which is excluded from CIS?

(a) Plantation scheme (b) Mutual fund scheme
(c) Real-estate pooling scheme (d) Goat-farming scheme

QUESTION **State the periodic and continual disclosure obligations of a collective investment management company. (5 marks)**

SOLUTION Answer

(1) Publish **half-yearly unaudited** and **annual audited** results of each scheme; (2) send **annual reports** to unit holders; (3) disclose the **NAV / valuation** of units periodically; (4) inform SEBI and investors of any **material change** (change in trustee, CIMC control, scheme features); (5) disclose any default, delay or legal proceedings; (6) keep books and records for 5 years; (7) report investor grievances and redress them; (8) disclose on its website. Failure attracts penalty under s.15D and possible winding up of the scheme.

Answer key with explanations

Q	Ans	Explanation / working
1	(b)	Maturity up to one year.
2	(b)	Diversification across index stocks.
3	(c)	T+1 since 2023; optional T+0 for a list of scrips.
4	(b)	Central counterparty.
5	(a)	Exercised by SEBI as delegated.
6	(b)	s.23E SCRA VERIFY.
7	(b)	s.15T; to the Supreme Court within 60 days (s.15Z).
8	(a)	s.15C.
9	(c)	s.10(1); beneficial owner has all rights.
10	(c)	Or fine up to ₹25 crore, or both.

Q	Ans	Explanation / working
11	(d)	Category II ₹10 crore.
12	(b)	Stock Brokers Regulations 2026 – no cash dealings VERIFY.
13	(b)	Unified regulator for IFSCs (GIFT City) from 2020.
14	(c)	IFSCA (Issuance and Listing of Securities) Regulations VERIFY.
15	(b)	Locked in for 18 months (3 years if proceeds mainly for capex).
16	(c)	Retail ≤ 10%, NII ≤ 15%.
17	(b)	Reg 18 SBEB Regulations, 2021.
18	(b)	December 2026 supplement change.
19	(c)	T+1 since 2023; optional T+0 for a list of scrips.
20	(b)	Within the prescribed time before the issue opens.
21	(a)	Reg 30 read with Schedule III.
22	(b)	Reg 23(4).
23	(c)	Reg 3(1).
24	(c)	Reg 7(1).
25	(c)	Schedule B.
26	(b)	Schedule B, PIT Regulations.
27	(b)	*SEBI v. Kanaiyalal Baldevbhai Patel* (2017).
28	(c)	Minimum ₹5 lakh.
29	(c)	T+1 since 2023; optional T+0 for a list of scrips.
30	(b)	Reg 11(4) Delisting Regulations, 2021.
31	(b)	Of paid-up capital and free reserves.
32	(b)	Except bonus, ESOP, conversion.
33	(c)	Notified 14-1-2026; MF Regulations 1996 repealed.
34	(b)	Equity and equity-related instruments.
35	(c)	T+1 since 2023; optional T+0 for a list of scrips.
36	(b)	Regulated separately.