ISQ Examination (Summer-2012)
Corporate and Banking Law - Associateship

Q. **Mr. Smart is the sole owner of a firm engaged in the import of cooking oil which is also a valued client of Bank 'X'. The firm is banking with Bank 'X' for the last 10 years and the owner of the firm is enjoying a running finance limit of Rs. 5 million in his personal name against equitable mortgage of the residential house in the name of his wife.**

One morning Mr. Smart approached the Branch Manager and requested him to release the title documents against the running finance limit for a day stating that the same are to be produced in connection with some dispute relating to conservancy charges with the local Municipal authorities.

The Branch Manager readily delivered the title documents held as security against an uncleared advance. When the documents were not deposited the following day, Operation Manager pointed out this to the Manager after the banking hours which was Friday and the last working day of the week. Since the Manager was over occupied and could not spare time to contact the borrower.

On Monday when he contacted the borrower at his office, he learnt with surprise that Mr. Smart has left the country and his firm is in deep trouble due to steep fall in the cooking oil prices in the international market. A consignment of large value cleared last week has inflicted heavy losses which he was unable to sustain. Further enquiries revealed that the borrower has raised a new loan against the equitable mortgage at Bank 'Y' and the title documents are now lying with that bank.

Questions:

a) **Comments on the action of the Bank Manager stating the correct procedure which should observed in accordance with local banking practices.**

b) **What risks are associated in a finance facility which is secured against equitable mortgage.**

c) **Identify other means which a banker may undertake to minimize the risk of equitable mortgage at least possible cost.**

Q. **Study the following cases and give an appropriate answer.**

i) **A bill is drawn :**
"Pay to our order the sum of Rs. one hundred thousand for value received." Specify the due date of this bill?

ii) **'M' draws a cheque in favour of 'N', a minor. 'N' endorses it in favour of 'P', who in turn endorses it in favour of 'Q'. The cheque is dishonoured by the bank. State the rights of 'P' and 'Q'.**

iii) **Bank 'X' receives for collection from its branch at 'Z' on June 11, a bill falling due on the 12th, and accepted payable at bank 'X'. On the same day (June 11) X receives from its customer an advice to pay the bill 'on presentation'. The bill is correctly described as due on June 12. Can Bank 'X' debit its customer's account on the 11th June, i.e. as soon as it receives both the bill and the advice?**

iv) **When a bill is presented for payment, whether to the drawee's banker or (rarely) to the drawee himself, is the presenting banker safe in accepting in payment a cheque or draft drawn on another bank?**

v) **If a bill or cheque which has been credited to a customer's account is dishonoured, and the banker wishes to debt the account with it, is he entitled to do so without the customer's authority?**

Q. **Describe the guideline in the Banking Companies Ordinance 1962 in respect of the following issues.**

A) **Restrictions as to payment of dividend.**
B) **Prohibition of advertising for deposits and collection.**
C) **Fidelity and secrecy of customers account maintained with them.**
D) **Prosecution of directors, chief executive or other officers.**
E) **Priority payments to depositors.**

Q. **M/s. "A" Limited is a Public Limited Company and its Annual General Meeting will be held on 31st January, 2011. The company receives a notice on 15th January, 2011, from a shareholder of the company nominating another firm of Chartered Accountants as auditors in place of existing auditors who have the board's approval. Explain the conditions under Companies Ordinance, 1984 required to be fulfilled by the shareholder while making nomination.**

Q. **A)** **Explain the principles contained in the Contract Act, 1872 for determining the compensation for loss of damages caused due to breach of trust.**

Q. **B)** **On the ground of supervening impossibility a contract may be discharged. Discuss with examples.**

Q. **Mr. Arif has taken a loan of Rs.100,000/= from Mr. Basit. On the due date of loan Mr. Arif receives a cheque from Mr.Khan. Who has clearly mentioned on the face of the cheque "Pay to Mr. Arif". Mr. Arif after putting his signature on the back. Delivered to Mr. Basit.**

A) **What type of endorsement has been done by Mr. Arif.**

B) **Is Mr. Basit entitled to receive the payment of cheque?**

C) **As a bank manager can you encash the cheque?**

Q. **You are maintaining a term deposit of Rs. ten million in the sole name of a depositor. The depositor has also signed a mandate in favour of his son as an authority for encashing the investment. His son comes and informs you that his father has died and requests you to encash the deposit prematurely and pay him the proceeds.**

Will you accept his request? First state YES or NO and then give reasons for your answer.

Q. **Explain how an equitable mortgage differs from a Registered Mortgage. What are the advantages and disadvantages of obtaining one against the other?**

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