

**ADVANCED GLOBAL SECURITIES
OPERATIONS**

DATE OF EXAM	Thursday 25 June 2009
3 HOURS	2.00pm – 5.00pm
RUBRIC	SECTION A – <i>ALL</i> questions in this section are to be answered SECTION B – <i>ALL</i> questions in this section are to be answered SECTION C – <i>ONE</i> question in this section to be answered SECTION D – <i>ONE</i> question in this section to be answered

NOTES TO CANDIDATES

1. Please insert your Candidate Number on the cover of your Answer Book. *Do not insert your name.*
 2. Show *all* workings in your Answer Book.
 3. Candidates may attempt the sections in any order. Please indicate clearly in your Answer Book which questions you are answering.
 4. Please insert in the box provided on the cover of your Answer Book the numbers of the questions you have attempted in the order in which they appear in the Answer Book.
 5. You may use only the calculator provided.
 6. You must hand your Answer Book to an invigilator before you leave the Examination Hall. *Failure to do so will result in disqualification.*
 7. Candidates are reminded that no marks will be awarded for illegible work.
 8. Once submitted, the examination scripts become the property of Securities & Investment Institute and will not be returned to candidates.
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PLEASE TURN OVER WHEN INSTRUCTED

Answer ALL questions in this section

- 1 Under the FSA, regulations exist to ensure that firms apply a standard process in the opening of client accounts. Identify THREE of the areas contained within this process. (3 marks)
- 2 In the UK and mainland Europe, funds such as OEICs, Unit Trusts and SICAVs are subject to various charges. Identify any THREE of the charges that the fund will likely have to pay. (3 marks)
- 3 Whenever an investor places an order to buy or sell equity securities, the investor has to eventually settle the transaction. Identify THREE of the main reasons why a transaction might fail to settle on time. (3 marks)
- 4 Sub-custodians form a vital part of the business known as global custody. Identify the THREE main criteria that you would consider to be of the highest importance to your firm from a high level business point of view. (3 marks)
- 5 Securities lending is a very popular business activity. Within this business activity there is something known as *discretionary* or *managed lending*. Identify THREE of the high level business tasks that are undertaken by any entity that decides to supply this service to its clients. (3 marks)
- 6 In cash management parlance *sweeping* is commonly used terminology. Briefly describe what you understand sweeping to be. (3 marks)
- 7 Corporate actions and their associated terminology are a critical part of global securities operations. A company in the UK has announced a 1-for-2 capitalisation issue. Answer the following questions:
 - (a) On what day should you change the client's holding?
 - (b) If the client held 1000 shares, what would their new holding be?
 - (c) If the client's holding was valued at £1000.00 prior to the event, what would you expect the value to be immediately after the event?(3 marks)
- 8 Straight-Through Processing (STP) is an increasingly important part of the financial services industry. Identify THREE different operational areas within the industry that could benefit from deployment of a STP environment. (3 marks)
- 9 Service Level Agreements (SLA) are a familiar industry component. Outline THREE of the principles underpinning the use of SLAs. (3 marks)
- 10 Transition management is a critical industry innovation. Outline the strategic reasons why an institutional investor might choose to appoint a transition manager. (3 marks)

SECTION B**TOTAL 30 MARKS****Answer ALL questions in this section**

- 11 You are the manager of a global custody firm's transition area. Your senior management has asked you to prepare a presentation for a customer who has appointed a transition manager and is particularly interested in knowing how your firm manages their part in the transition process. Your presentation must outline:
- (a) the primary tasks undertaken by your firm in pre transition; (5 marks)
 - (b) the primary tasks undertaken by your firm in post transition. (5 marks)
- 12 A junior member of your staff has asked you for an explanation of what the term *underwriting* means. Prepare an answer to this question so that the junior member of staff is fully aware of:
- (a) the principle of underwriting; (2 marks)
 - (b) how underwriting benefits the issuer; (2 marks)
 - (c) how underwriting benefits those institutions that participate; (2 marks)
 - (d) the risks associated with underwriting; (2 marks)
 - (e) the level of commissions normally paid. (2 marks)
- 13 It is important for our industry that those who aspire to become the future managers should understand the significance of maintaining accurate client records. The FSA provides firms with general guidelines to ensure the accuracy of client records. What are these guidelines? (10 marks)

SECTION C**TOTAL 20 MARKS****Answer ONE question in this section**

- 14 You have just joined a global custodian. You have been appointed as the manager of your new firm's reconciliations section. You are responsible for the timely reconciliation of the securities and cash positions that your firm hold on behalf of its clients. In the interview process you had been advised by your new employer that there are "some difficulties within the area that the internal audit team were concerned with that need sorting out" hence your appointment.

Describe what your first 10 days on the job might entail. (20 marks)

- 15 You are currently employed by a custodian and are the manager of your firm's data processing area. It has been brought to your attention that some time ago data regarding a client was incorrectly coded and input into your system. The data concerns the classification of the client type. The client has been classified and recorded as being a Charitable Fund whereas they should have been classified as a Pension Fund.
- (a) Discuss the ramifications of this error and how it could affect your firm and the client.
 - (b) Outline the actions you would immediately take in such a circumstance.
 - (c) Outline the potential remedial actions you will likely have to take in such a circumstance.
 - (d) Outline what you would do to prevent this from happening again.
- (20 marks)*

SECTION D

TOTAL 20 MARKS

Answer ONE question in this section

- 16 You are the Senior Network Operations Manager of a global custodian institution. You have been tasked with the preparation of a document for your board of directors that outlines the overarching business principles that should be applied in the creation of an effective sub-custodian network.

Discuss what you believe to be:

- (a) the overarching business principles that should be applied;
- (b) the definition of an effective sub-custodian network;
- (c) the best way to gauge the performance of the network;
- (d) the risks associated with the creation of a network.

(20 marks)

- 17 You are the manager of your client data service team. Your company is trying to win a fund management contract from a very important new client. As the client is extremely keen on knowing how your firm's client records are kept accurate and up to date, your sales team want you to discuss the regulatory framework that exists so as to demonstrate the overall management applied to client data. They want you to demonstrate:

- (a) the essential elements within the UK investment industry that a firm has to gather in order that client records are accurate and up-to-date;
- (b) FIVE examples of the effects that incorrect or incomplete client records could have on a firm;
- (c) the regulatory guidelines and recommendations for ensuring that accurate client records are maintained.

(20 marks)