

ADVANCED GLOBAL SECURITIES OPERATIONS

DATE OF EXAM	Thursday 04 December 2008
3 HOURS	2.00 pm – 5.00 pm
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

Candidates are reminded that no marks will be awarded for illegible work

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. The decision of the panel is final and no correspondence will be entered into concerning the grade awarded.
 8. Once submitted, the examination scripts become the property of Securities & Investment Institute and will not be returned to candidates.
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Answer ALL questions in this section

- 1 Under the FSA rules, it is important to segregate client assets from those of the firm. Under these rules, new cash monies received for the benefit of a client by automated transfer is governed by a timing expectation. What is this timing expectation? (3 marks)
- 2 Investors who buy and sell units in a Collective Investment Scheme such as a Unit Trust or OEIC will be faced with certain charges. Identify THREE of these typical charges. (3 marks)
- 3 *Cross Border Settlement* is terminology often used in the trading of international securities. What is *Cross Border Settlement*? (3 marks)
- 4 Sub-Custodians form a vital integral part of the business known as *Global Custody*. Therefore it is very important that the performance of Sub-Custodians is regularly monitored. Give THREE examples of the components found in a good monitoring regime. (3 marks)
- 5 Securities Lending is a very popular business activity. Within this business activity there is something known as *Directed Lending*. Explain fully what *Directed Lending* is and name the TWO other types of lending programmes available to investors. (3 marks)
- 6 In Corporate Finance Cash Management parlance *Asset Backed Securities* is common terminology. Describe what an *Asset Backed Security* is, why it is issued and what other strategic options might be available to a company instead. (3 marks)
- 7 Corporate Actions are an important part of a company's corporate strategy. Explain THREE of the options a shareholder might have, should a company they hold shares in decide to announce and issue a Rights Issue. (3 marks)
- 8 Straight-Through Processing (STP) is becoming an increasingly important part of the Financial Services industry. Name any THREE of the key elements attributed to STP found within the definition of STP as described by the *European Central Bank* (ECB). (3 marks)
- 9 When entering into any ongoing business relationship with another institution whereby a Service Provider provides certain services, most institutions would enter into a Service Level Agreement (SLA). Identify THREE of the consequences to each party to the SLA in the event that the Service Provider does not perform to the necessary standards as outlined by the SLA. (3 marks)
- 10 In some instances there is still a requirement to effect a *Certificated Settlement*. Identify THREE of the perceived risks that are associated with this practice. (3 marks)

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

- 11 You are the manager of your firm's Securities Lending area. A client of your firm, who currently runs their own lending programme, is trying to decide whether to outsource this activity to your firm. Your senior management have asked you to prepare a presentation for the client which must outline:
- (a) The fundamental tasks that your firm undertakes when lending securities; *(5 marks)*
 - (b) The advantages to the client of outsourcing their lending programme. *(5 marks)*
- 12 A private client who is new to the global investment markets has asked you to describe to them what a CSD is and what an ICSD is. They have also asked you what the difference between them is. Draft a response to this question. *(10 marks)*
- 13 The fulfilment of regulatory requirements is of paramount importance to any institution conducting business in the investment industry.
- Discuss what you believe the fiduciary principles are that apply to holding a client's assets, together with the reasons for those principles. *(10 marks)*

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

- 14 You are the manager of your firm's Corporate Actions department. A situation has arisen and been brought to your attention whereby there is a dispute between your staff and the administration staff of a fund management institution that you serve, with regards to the outcome of a particular rights issue. Your staff have recorded notes to suggest that a verbal instruction to lapse all of the fund manager's clients rights entitlement was given, whereas the fund manager's staff say they did not issue any such verbal instruction, as they wanted to take up the rights and now want the position added to their clients' portfolio. The value of the shares involved has since risen by 20%.
- (a) Describe the actions you would take to clarify this situation.
 - (b) Explain the key drivers that will influence the action you will take.
 - (c) Itemise the action you would take to remedy the situation.
 - (d) Outline the actions you would take to prevent this from recurring.
- (20 marks)*

- 15 Within the investment industry as a whole it is accepted that each firm's records and *standing data* databases for clients are accurate and up-to-date. You have been asked to prepare a presentation to a prospective client to demonstrate where your firm will concentrate its efforts to ensure that the standing data is accurate and why.

Your presentation should:

- (a) Discuss why it is essential within the investment industry that each firm's client database records are accurate and up-to-date; (10 marks)
- (b) Discuss the areas of operation within your firm that rely on these databases and illustrate, with examples, some of the effects that incorrect or incomplete database records could have on a firm. (10 marks)

SECTION D

TOTAL 20 MARKS

Answer ONE question in this section

- 16 You are a manager within your firm's audit team. Your firm has been the victim of several instances of *Buy-In* proceedings being instigated against it which has had a negative impact on the firm's Profit and Loss Account. Your senior management has asked you to review the situation and make recommendations as to what needs to be done to stop this worrying trend.

Describe what actions you would take to fulfil your senior management's request.

(20 marks)

- 17 You are the Manager of the Reconciliation Department in your firm's securities operations department. Your Board of Directors has decided to review the firm's costs as part of a drive to generate a better profit margin for the whole firm. You have been asked to produce a report which identifies the possibilities for cutting costs in your own section.

What would be the significant items that you would include in your report to your Board of Directors? (20 marks)