



DIPLOMA SUMMER 2008 EXAMINATION

GLOBAL OPERATIONS MANAGEMENT

DATE OF EXAM	Friday 27 June 2008
3 HOURS	10.00 am – 1.00 pm
RUBRIC	SECTION A - <i>ALL</i> questions in this section are to be answered SECTION B – <i>TWO</i> questions in this section are to be answered SECTION C – <i>ONE</i> question in this section is 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 the calculator provided or one approved by the Securities & Investment Institute.
 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 the Securities & Investment Institute and will not be returned to candidates.
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PLEASE TURN OVER WHEN INSTRUCTED

SECTION A**TOTAL 25 MARKS****Answer ALL questions in this section**

- 1 Briefly state the role of a sub-custodian. *(2 marks)*

- 2 Describe two methods by which investors can benefit from double taxation relief when investing in foreign securities. *(2 marks)*

- 3 Briefly define the following market terms
 - a) Cum dividend
 - b) A zero coupon bond
 - c) Cross Rate
 - d) Nominal or par value
 - e) Beneficial Owner
 - f) Irrevocable payment
 - g) Pari-Passu *(7 marks)*

- 4 Briefly describe four main types of operational risk. *(4 marks)*

- 5 Explain a buy-in. *(2 marks)*

- 6 Describe the difference between a voluntary and a mandatory corporate action, and give two examples of each. *(4 marks)*

- 7 What is a short position and how would it be managed operationally? *(4 marks)*

SECTION B**TOTAL 50 MARKS**

Answer TWO questions in this section
Each question carries 25 marks

8 Your institution has sold the following OTC option:

Stock: ABC plc
Currency: GBP
Nominal: 200,000
Counterparty: XYZ Bank
Put/Call: Call
Strike Price: 12.00
Maturity: 30 Dec 2008
Type: European
Price: 0.35
Trade Date: 29 May 2008
Settlement Date: 30 May 2008
Delivery: Cash settled

- a) i) Calculate the Premium amount to be received from XYZ Bank *(2 marks)*
- ii) On 30 September 2008, ABC will announce a 2:1 stock split on their shares. Briefly explain how this will affect your open position and what actions your company should take with regard to communication to XYZ Bank. *(4 marks)*
- iii) At maturity, ABC stock is trading at £6.52. What cash settlement, if any, should take place? *(2 marks)*
- iv) How would settlement at maturity differ if settlement was a physical delivery rather than cash? *(2 marks)*
- b) Your company has only recently started trading OTC options, whereas previously it had traded only exchange traded futures and options. As Operations Manager you have been asked by senior management to produce a report outlining the differences between OTC and exchange traded derivatives. Your report should also highlight the different risks and potential issues for operations. *(15 marks)*

- 9 You are the operations manager for a medium sized private client firm which has outsourced the core operational process to its global custodian. Over the last few months you have noticed a marked increase in the number of new client applications and in the volume of transactions both of which have increased the number of exceptions reported to you on the operational MIS.

You are expecting a regulatory review from the FSA in the coming weeks and the Board has requested that you prepare a short report on the main requirements on anti-money laundering, outsourcing and operational risk and to outline the key internal processes to ensure that the firm is in compliance.

Your report should focus on:

- a) The regulatory requirements for operational risk, outsourcing and money laundering. *(15 marks)*
- b) Internal controls which have been implemented to ensure compliance with the regulations *(10 marks)*

- 10 Multi-manager firms select “best of breed” investment managers for each asset class, and appoint multiple investment manager firms on a sub-advisory basis.

- a) Identify the various operational issues that a multi-manager firm would face in managing 10-15 sub-investment managers. *(15 marks)*
- b) Suggest effective ways in which the multi-manager firm might manage the various issues that you have identified. *(10 marks)*

- 11 You are the newly appointed manager of your firm’s corporate actions department that has recently undergone its annual internal audit review.

The audit report highlighted the following weaknesses:

- The event diary process is largely manual.
- During the peak season too much reliance is placed upon external contractors.
- The overall experience level within the department has been diluted by high staff turnover.
- The quality control process was found to be barely satisfactory.

Your brief from senior management is to ensure that the department receives a clean bill of health from an external audit due in 3 months, within the current department budget, and to recommend more strategic solutions for consideration in next year’s budget.

Your first week in the role ends with a significant market claim caused by a missed deadline. The event file was discovered on the desk of a member of the staff who had been on sick leave for the past two weeks.

- a) How would you approach the immediate control breakdown that led to the claim?
(5 marks)
- b) What action would you take to ensure that you meet the short-term brief from senior management?
(12 marks)
- c) How would you ensure that the next annual internal audit rating is fully satisfactory?
(8 marks)

Your answer should be in the form of an executive summary for senior management that clearly states short-term tactical actions you are taking and key recommendations for implementation in the next year.

Answer ONE question in this section

- 12 You have recently joined a medium sized UK-based hedge fund management firm in a senior operations role. As a first priority you have been asked by the managing partner to bring the firm's operations up to the standards that both the regulator and large institutional clients increasingly expect.

Write a report to the managing partner setting out what these standards might look like across all relevant operational areas of the firm's business. (You should not concern yourself with the current operational status of the firm, as the report is designed to describe the intended future state.) *(25 marks)*

- 13 Financial institutions continue to choose offshoring as a way of reducing operating costs. Views on the benefits and the advantages vary, and the subject still attracts the attention of politicians and journalists.

From an international operations viewpoint discuss:

- a) The advantages and disadvantages of offshoring. *(6 marks)*
- b) The risk management factors involved in offshoring operations. *(10 marks)*
- c) The criteria for selection of operations that might or might not be suitable for offshore. *(9 marks)*

Include in your answer both the use of offshore service providers and the establishment of offshore operations centres.

- 14 Continuing market trends have highlighted the importance of understanding and maintaining effective liquidity in all areas. With the sharpened emphasis on managing and accessing cash successfully, discuss the learning experiences of financial institutions in recent environments focusing on:

- a) Recent market history, context, conditions and relevant contributing factors. *(10 marks)*
- b) Practical strategies for reducing exposure and increasing liquidity at a firm and market level. *(10 marks)*
- c) Your recommendations for improving your own approach to cash. *(5 marks)*

- 15 Despite the current economic climate, London as a financial centre continues to hold a pre-eminent position against other global alternatives.
- a) Discuss the factors which continue to make London a suitable place for basing a financial operation. *(13 marks)*
 - b) Consider how these factors might be affected by changes in the future. *(12 marks)*