



DIPLOMA SUMMER 2009 EXAMINATION

GLOBAL OPERATIONS MANAGEMENT

DATE OF EXAM	Friday 26 June 2009
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>ALL</i> parts of the question in this section are to be answered SECTION C – <i>TWO</i> questions 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. 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

Answer ALL questions in this section

- 1 A company share price is trading at 300p when it announces a 1 for 4 rights issue at 250p. Calculate the theoretical ex rights price. *(2 marks)*

- 2 Identify two of the three elements contained in the European Code of Conduct for Clearing and Settlement. *(4 marks)*

- 3 The Financial Services Authority (FSA) is the regulator for the financial services industry in the UK.
 - a) What are its principal obligations? *(2 marks)*

 - b) Name four other equivalent bodies and their jurisdictions. *(2 marks)*

- 4 Briefly define the following market terms:
 - a) REIT
 - b) Turquoise
 - c) Deferred Shares
 - d) JASDEC
 - e) Time Deposits
 - f) Warrants
 - g) Forward Rate *(7 marks)*

- 5 What does the term 'Insider Dealing' mean and under which Act is it classed as a criminal offence? *(2 marks)*

- 6 Why does the writer of an option carry an unlimited risk if they are not in possession of the underlying asset? *(2 marks)*

- 7 Clearly set out the four main categories of risks identifiable to Operational Risk. *(4 marks)*

Answer ALL parts of the question in this section.

- 8 You have been asked by the director of operations to review the reconciliation and control of clients' cash and stock within the firm. You have reviewed the three months of reconciliation up to end March and your findings are summarised in the table below:

	Jan	Feb	March
Firm Cash Account	£'000	£'000	£'000
Cash Balance on Bank Statement	750	1100	900
Firm Money Ledger Account	500	450	500
Date of Last Reconciliation	7 Oct	8 Nov	12 Dec
Number of reconciling items	15	18	25
Cash to be Transferred to Client Account	200	600	300
Client Money Accounts	£'000	£'000	£'000
Cash Balance on Bank Statement	250	300	400
Client Money Ledger Account	500	1000	900
Date of Last Movement	29 August	30 Sept	15 Oct
Date of Last Reconciliation	7 Sept	10 Oct	Unreconciled
Stock Accounts	Holding	Holding	Holding
Custodian Statement Stock A	500	550	400
Client Ledger Stock A	480	430	400
Date of Last Reconciliation	15 Sep	15 Sep	5 Dec
Vault Count Stock B	200	200	250
Client Ledger Stock B	190	200	200
Date of Last Reconciliation	20 April	20 April	20 April

- a) Summarise the main FSA regulatory requirements for reconciliations. (4 marks)
- b) Identify the main regulatory issues faced by the bank and the actions which should be taken immediately. (10 marks)
- c) In light of your analysis, your director has asked that you prepare a report to the Board outlining the key operational issues and also an analysis of the main outsourcing opportunities and the pros and cons of outsourcing versus in house processing. (21 marks)

Answer TWO questions in this section.

Each question carries 20 marks.

- 9 You are the operations manager in a small asset management firm dealing with an expanding range of asset types, a growing number of counterparties and escalating transaction volumes. Your Board is concerned with the increased risk and compliance burden and you have been requested to investigate the use of SWIFT within the firm. You have been asked to prepare a short briefing paper which:
- a) details, in context, how the fund management community uses SWIFT *(15 marks)*
 - b) explains the main requirements to connect to SWIFT *(5 marks)*
- 10 Your company has requested that you implement an operational due diligence framework for hedge funds selection in light of the failings which are becoming apparent in the Madoff case.
- a) Identify the main operational factors which differentiate hedge funds and the risks which these bring. *(10 marks)*
 - b) Describe the operational due diligence process and the main steps you would take in implementing this as part of the hedge fund selection process. *(10 marks)*
- 11 Your Board has appointed you responsible for business continuity within a small asset management company which is relocating to rural Somerset.
- a) Outline the main risk areas which you would incorporate into your business continuity plan. *(10 marks)*
 - b) Outline the immediate actions you would put in place for start of business in the new location. *(10 marks)*

- 12 You are the COO of MNO, a European multinational organisation headquartered in the UK. One of your main responsibilities is to oversee the global pension's portfolio. The total of the pension fund assets amounts to over £1.5bn and these defined benefit schemes are located in Ireland, Germany, France and the UK, with UK and Germany holding 80% of the assets. The assets are split between 60% in global equities and 40% in fixed income with each jurisdiction holding direct investments. Each jurisdiction independently contracts with asset managers, custodians/administrator, legal and tax advisers.

You have been asked by the group Board to examine asset pooling for the pensions funds, in particular considering tax-transparent pooling, and to present a report which covers the following subjects:

- a) the benefits of asset pooling *(6 marks)*
- b) the challenges of asset pooling. *(6 marks)*
- c) Provide a diagram and description of how you would propose the asset pooling operating model would be established. *(8 marks)*

- 13 As an operations manager you have been tasked with introducing a stock lending program for a leading pension fund with significant global assets. Whilst the firm remains cautious, you are required to prepare a summary business proposal on the challenges and practicalities involved, covering the following:

- a) Broadly confirm the key functions and benefits of entering this space, both to the market and your firm. *(5 marks)*
- b) Outline the key areas of risk that would apply across this activity and detail your plans for managing any such operational exposures. *(10 marks)*
- c) Confirm and outline your recommendations for implementation on your core proposal and an additional viable alternative. *(5 marks)*