



DIPLOMA WINTER 2008 EXAMINATION

GLOBAL OPERATIONS MANAGEMENT

DATE OF EXAM	Friday 5 December 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>ALL</i> parts of the question in this section are to be answered SECTION C – <i>TWO</i> questions in this section are 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

Answer ALL questions in this section.

- 1 A company share price is trading at 500p when it announces a 1 for 3 rights issue at 400p. Calculate the theoretical ex rights price. *(2 marks)*

- 2 Describe four main operational differences between over-the-counter options and exchange-traded options. *(4 marks)*

- 3 What are an ISIN and an IBAN? Describe two similarities and two differences between them. *(4 marks)*

- 4 Identify the FSA requirements for reconciling the following:
 - a) Client money deposited with a firm
 - b) Client securities held in a depository account
 - c) Client securities deposited with the firm *(3 marks)*

- 5 Briefly define the following market terms:
 - a) DRIPs
 - b) Kangaroo Bond
 - c) NAV
 - d) CFDs
 - e) FRNs
 - f) OEICs
 - g) Scheme of Arrangement *(7 marks)*

- 6 By what other more common name is the Federal National Mortgage Association known and what is its role? *(2 marks)*

- 7 Briefly set out three of the main characteristics of a unit trust. *(3 marks)*

Answer ALL parts of the question in this section.

- 8 You are the operations manager in a medium sized institutional asset management company. The following table shows the percentage of assets by product under management for your firm as it has grown considerably over the past five years:

Percentage of Turnover	Year 1	Year 2	Year 3	Year 4	Year 5
Cash Deposits	20%	10%	7%	3%	2%
Money Market Funds	0%	10%	8%	5%	3%
Gilts	30%	20%	15%	12%	10%
International Bonds	0%	10%	15%	15%	10%
UK Equities	50%	40%	25%	20%	15%
International Equities	0%	10%	10%	20%	15%
Emerging Markets	0%	0%	10%	10%	10%
ETFs	0%	0%	10%	5%	5%
Hedge Fund of Funds	0%	0%	0%	5%	5%
Hedge Funds	0%	0%	0%	0%	5%
Private Equity	0%	0%	0%	5%	10%
On Exchange Derivatives	0%	0%	0%	0%	5%
OTC Derivatives	0%	0%	0%	0%	5%
Total	100%	100%	100%	100%	100%

- a) Outline the main developments which have occurred over the five years by describing the changes in the operational risk profile for the firm and the new challenges which each year has brought. *(20 marks)*
- b) For the past five years you have decided to address the increased demands by recruiting new staff, and by developing new systems and processes. However you have recently noticed increased reconciliation problems and a deterioration of quality in the process. Describe the key steps you would take in identifying areas which could be outsourced and how you would approach the outsourcing exercise. *(15 marks)*

Answer TWO of the FIVE questions in this section.

Each question carries 20 marks.

- 9 Your firm is seeing very high levels of liquid assets and you have been asked by your Board to outline the main cash or near cash products which are available to invest in.
- a) Outline the main products available and the key aspects of operational due diligence you would need to undertake before investing in these. *(10 marks)*
 - b) Identify the key operational and infrastructure requirements required to enable the firm to efficiently trade and settle within each product grouping. *(10 marks)*
- 10 You are the manager of the equities operations stream of an integration project which has been formed following your bank taking over a similar sized organisation.
- a) Identify the main process areas which you will focus on when tackling the integration of the two entities. *(6 marks)*
 - b) For each process area, identify the main tasks which will need to be covered within the integration plan. *(6 marks)*
 - c) Outline the key steps you would take to deliver the successful integration of the two equity operation units *(8 marks)*
- 11 Many factors have contributed to the global financial crisis of 2008. Using corporate governance best practice as your yardstick, discuss the impact that institutional shareholders have had on this, focusing both on their positive (mitigating) impact and their negative (contributory) impact.

In what ways might shareholders act differently in the future to help prevent such a crisis from happening again? *(20 marks)*

- 12 Target 2 – Securities (T2S) is going ahead, for implementation in 2013, and will give easier access to stock exchanges and aid self-clearing. In the interim, there is the rise of the Multilateral Trading Facilities (MTFs) in direct competition to the stock exchanges.
- a) In what ways will the established stock exchanges be put under pressure by the rise of the MTFs? *(15 marks)*
 - b) How will the worldwide interest in dark pools affect trading on the stock exchanges and their ability to continue in their present role? *(5 marks)*

13 You are the operations manager of ABC Bank, and have heard market rumours that one of your main counterparties is experiencing difficulties in meeting its obligations in the market. At present your bank has outstanding security settlements and varying short-term money market transactions with the counterparty.

a) Identify what the associated risks are in respect of the open transactions.

(8 marks)

b) What steps would you take to mitigate these risks and to prevent new transactions and trades from taking place?

(12 marks)