



Department of Finance and Investment Management

FINANCIAL SERVICES OPERATIONS 3A

FSO33A3

Supplementary Assessment Opportunity

Date of Test: July 2019

Time: 3:00 hours

Marks: 100

Assessor: Yusuf Patel

Moderator: Thabo Gopane (Internal)
Jaicee Bam (External)

INSTRUCTIONS:

- This paper consists of 5 pages (including the cover page).
- Start each question on a new page.
- Calculators are allowed
- Write neatly

Question	Topic	Marks	Time
1	Securities	25	45 minutes
2	Main industry participants	23	41 minutes
3	Settlement Characteristics	20	46 minutes
4	Other investor services	22	40 Minutes
5	Multiple Choice	10	18 Minutes
		100	180 minutes

QUESTION 1 - (25 marks)

- 1.1) List five ordinary shareholder rights. (5)
- 1.2) Explain what is meant by order driven market (4)
- 1.3) Thanos Investment company intends on listing a Thor Inc ADR, on the NYSE, explain what the procedure for listing the ADR would be (6)
- 1.4) Explain the pertinent characteristics of an Investment Trust. (5)
- 1.5) An investor purchased a R100 000 8.75% South African Government bond 2025. The bond accrues interest twice a year on 31 March and 30 September every year. You can assume the settlement period is T+2 and an actual/actual convention. Calculate the following:
- 1.5.1) The coupon payment accruing on 30 September 2019 (1)
- 1.5.2) The record date is 30 August 2018, if the bond is sold on 25 July 2019 calculate the accrued interest and state if it is a Cum or Ex-Interest transaction (3)
- 1.5.3) If they bond was trading at a price of R11 056 calculate the dirty price. (1)

QUESTION 2 - (23 marks)

- 2.1) In the form of a table describe the core elements that are typically covered in a RFP (10)
- 2.2) What is the purpose of an SLA between a Global and Sub-Custodian, and list five types of information that will be found in the SLA. (5)
- 2.3) List five services a custodian bank may provide (5)
- 2.4) List three communication gateways through which customers may access Clearstream bankings CREATION system? (3)
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QUESTION 3 - (20 marks)

- 3.1) Briefly explain the 4 major components of the trade cycle (8)
- 3.2) Explain in the detail the manner in which DVP can be achieved. (4)
- 3.3) What is the purpose of OMGEO, and what major risk does it attempt to address? (5)
- 3.4) A buyer was delayed in their settlement of a bond purchase, with a notional amount of \$4 200 000, by 6 days. The sellers overdraft rate is 8%. Using the 360 days methodology, what claim amount will the buyer pay to the settler? (3)

QUESTION 4 - (20 marks)

- 4.1) Explain why an entity may be willing to accept a lower quality collateral? (2)
- 4.2) List 5 factors that an investor should take into account when deciding whether to allow the custodian to use a nominee account structure. (5)
- 4.3) Why does a company engage in a stock split and stock consolidation. (4)
- 4.4) An investment manager has assets to the value of \$200 000 000 held with a Cog Custodian bank. The *ad valorem* fee is 0.35% to provide core custodian services. The investment manager has a further \$20 000 000 in South Africa that is charged at an *ad valorem* rate of 0.75%. Calculate the annual fee payable on the total portfolio. (3)
- 4.5) An investor holds 10 000 shares in a stock purchased at R3.00 per share. The company subsequently makes a rights issue of R4.50 per share at a ratio of 1:4. Calculate the following
- 4.5.1) the cost of the new shares (2)
- 4.5.2) the cost of the total shares (2)
- 4.5.3) the weighted average cost per share (1)
- 4.5.4) Why would a company partake in a rights issue? (1)
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QUESTION 5 - (10 marks)

5.1 Where is information recorded that is obtained under the Companies Act 2006 regarding a person's interest in a public company's shares?

- A Company register
- B Financial Conduct Authority
- C London Stock Exchange
- D Takeover Panel

5.2 Who has legal ownership of a security following the settlement of a stock loan?

- A The lender
- B The borrower
- C Neither party
- D Both parties

5.3 What do custodians typically specify when asking their clients for corporate actions instructions, in order to allow them time to process any request prior to the event deadline?

- A A cut-off date
- B Transmission request details
- C Service level agreement
- D Transmittal notice

5.4 When lending stock on a securities lending transaction, which of the following is lost by the lender?

- A The right to any dividends
- B The right to vote
- C The right to apply for any rights issues on the stock
- D The right of daily revaluations on the loaned stock

5.5 What is the name given to an income payment paid from the borrower to the lender in a securities lending transaction?

- A Payment protection
- B Income in principal
- C Manufactured dividend

D Benefit retention

5.6 Which of the following effects will a capitalisation issue have on an investor's shareholding?

- A The company's name will change
- B The share price will change
- C There will be a partial repayment of capital
- D The investor will be able to apply for new additional shares

5.7 How can a global custodian benefit clients by engaging in money market activity?

- A Obtaining better rates for FX transactions
- B Obtaining higher interest rates for cash deposits
- C Ensuring that adequate liquidity levels are maintained
- D Preventing failed trades in the underlying securities

5.8. A firm has chosen a new custodian to hold its safe custody investments. To comply with the regulations, how often must it carry out a risk assessment on this custodian?

- A. A minimum of once every six months
- B. A minimum of once every year
- C. A minimum of once every two years
- D. No prescribed minimum; it depends on circumstances

5.9. Under the substantial shareholder reporting rules, a company is empowered to:

- A. List its shares on a recognised exchange
- B. Initiate an investigation into ownership of its shares
- C. List its shares on exchanges outside of the UK
- D. Enter into a merger with another UK-registered company

5.10. If a broking firm is managing a private investor's portfolio and registers the client's shares into a nominee company name, the beneficial owner and the legal owner of the shares will be:

- A. The nominee company in both cases
- B. The client in both cases
- C. The nominee company and the client respectively
- D. The client and the nominee company respectively

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