

NEW COURSE
TO ASIA PACIFIC

5 day course

Investment Banking Audit School

8-12 November 2010
Hong Kong

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Understanding investment banking, the associated risks and how to control them

- Master the product knowledge necessary to audit the key business areas of an investment bank
- Apply fundamental audit techniques to measure the effectiveness of internal controls in an investment banking environment
- Develop suitable and effective audit programmes for each business area
- Learn the lessons from past investment banking control failures and fraud
- Practice writing up and ranking control weaknesses through the use of case study audits

Expert Course Director:

Guy Neville

Secure your place!
Register before
11 October 2010 at
www.mistiasia.com

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HONG KONG

WHO SHOULD ATTEND?

- Internal and external auditors
- Bank supervisors and examiners (e.g. Central Banks)

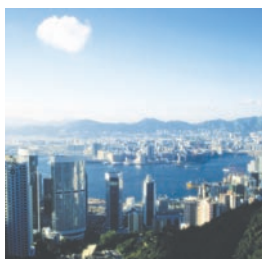
PREREQUISITES

- Some knowledge of audit techniques and the financial markets would be an advantage

LEARNING LEVEL

- Intermediate

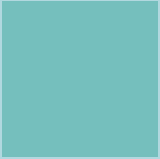
CPEs: 37



Find out more or register your place today!

Web
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COURSE OVERVIEW

Investment banks present challenges to auditors – there is the language to understand and the complexity of the products to deal with. This course is designed to provide auditors with the key skills necessary to perform audits of investment banks, with a focus on Originations, Trading and Sales, Risk Management and Compliance. The course content includes essential product knowledge, product accounting, case studies to design audit programmes, and opportunities to practice writing-up and ranking audit findings obtained during a mock audit. Lessons will be drawn from past control failures and cases of investment banking fraud.

The course teaches auditors with little or no previous experience of investment banks to undertake audits of these institutions with confidence.

METHODOLOGY

A combination of classroom style presentations mixed with interactive case studies and group assignments. Internal audit techniques will be explained in each module of the course.



Book by 11 October 2010 to secure your place.

Email
misasia@misti.com

Telephone
+852 2520 1481

Facsimile
+852 2866 7340

Registration commences at 8:30
Programme runs from 9:00 - 5:00 daily

Day 1

Introduction to investment banks (I-banks)

- Comparison of I-banks, commercial banks and universal banks
- How do I-banks make money?
- The function of relationship managers
- The money markets: how short-term money is priced
- The capital markets - meeting a wholesale borrower's financing needs
 - Primary markets: syndicated loans

Case study / exercise: originate and compare a fixed-rate syndicated loan with a floating-rate syndicated loan

- Primary markets: DCM
 - Features of bonds
 - Sovereign vs. corporate
 - Ratings
 - Price / yield relationship
 - Domestic, foreign, Eurobond
 - DCM syndicate
 - Lead manager / lead arranger, selling group, underwriters
 - Compliance: the Chinese Wall
 - Compliance: Code of Conduct

Case study / exercise: originate a fixed-rate bond

- Treasury
 - Matching assets with liabilities
 - Managing interest rate risk
 - Managing the balance sheet and liquidity

Case study / exercise: fund the drawdown of the floating-rate loan

- Risk-weighted capital
 - Minimum capital for on-balance sheet credit exposures
 - Minimum capital for off-balance sheet credit exposures
 - Basle III developments
 - Techniques for maintaining adequate capital

Exercise: calculate the risk-weighted capital charge for the floating-rate loan

- Settlements
 - Correspondent bank accounts (NOSTRO, VOSTRO, LORO accounts)
 - Communication between correspondent banks via SWIFT
 - Correspondent account statements and reconciliation
 - Securities custodians
 - Auto-matching systems (e.g. Intellimatch)

Case study / exercise: record the drawdown of the floating-rate loan and reconcile ledger entries with the Nostro statement

Workshop: identify the key risks and expected controls for an audit of syndicated loans

- Global markets: credit trading
 - The secondary market for loans and bonds
 - The roles of traders and salespeople
 - Comparison of trading OTC and on-exchange
 - Trading credit spreads

Role play / exercise: buy the fixed rate bond from a hedge fund and simultaneously sell a sovereign bond. Settle trades at the securities depository.

- Finance: product controllers
 - P&L production
 - Reconciliation

Case study / exercise: produce the bond trading P&L and resolve a reconciliation difference with the traders

- Day 1 quiz

Day 2

Audit techniques: taking a litmus test at the start of an audit

- Initial controls
 - Nostro breaks
 - Outstanding and unmatched trade confirmations
 - Trade cancellations and amendments
 - Out-of-proof accounts
 - Errors, fines and losses
 - Policies and procedures
 - Documents required to test initial controls
 - Impact of findings and recommended solutions

Workshop: review and act upon the results of initial controls testing at Foreign Bank, Sydney

Global markets (swaps and FX)

- Global markets: interest rate swaps
 - Features and uses
 - Interbank trading and the use of brokers in the OTC market
 - The plain vanilla swap
 - Pricing
 - Revaluation
 - Documentation: ISDA®, long- and short-form confirmations, affirmations
 - Credit support features: collateral and netting agreements

Case study / exercise: swap the fixed-rate loan to convert it into synthetic floating rate debt using an interest rate swap, and calculate the all-in cost to the debtor.

- Non-vanilla swaps
- Hedging and hedge accounting
- Potential misuses of swaps

Workshop: identify the key risks and expected controls for the interest rate swaps desk. Develop an audit programme to test the controls.

- Global markets: foreign exchange
 - Fixed and floating exchange rates
 - Features of the FX market
 - Spot: direct and indirect quotation

Sales role play / exercise: respond to a client's request for a quote

- Calculate a cross rate

Case study / exercise: calculate cross rates

Biography

Guy Neville
Consultant

Guy is a professional trainer with a background in internal auditing and compliance. He started his banking career in London in trade finance, later transferring into internal audit with The Chase Manhattan Bank, a forerunner of JP Morgan Chase.

During 10 years at Chase, he led audits of the bank's business units and branches in Europe, the Middle East, Africa and Australasia. He also managed the audit department's training wing, designing and

delivering financial product training for colleagues at the bank, and for clients including central banks, the Institute of Chartered Accountants, and other commercial banks. He was promoted to Audit Manager and posted to Singapore in 1994. He has been based in Asia ever since, joining Deutsche Bank in 1998 and moving to Hong Kong in 2001 to take on the role of global markets compliance manager, North Asia. Guy's interest in vocational training resulted in his providing financial product training courses and compliance training full-time from 2004.

- Derivation of the forward FX rate
- Forward points / swap points

Case study / exercise: calculate forward rates

- FX swaps
 - Funding swaps (covered interest arbitrage)
 - Trading swaps (interest rate trading)
 - The Carry Trade
- Confirmations: SWIFT and other confirmation media
- Non-deliverable forwards

Case study / exercise: confirm and settle an NDF contract

Workshop: adapt the swaps audit programme for use on an FX audit

- Day 2 quiz

Day 3

Market risk management

- Types of market risk
 - Price risk
 - Liquidity risk
- Approaches to limiting and measuring market risk
 - Nominal limits
 - Stop loss limits
 - PVO1 (delta)
 - Value at Risk (VaR)

Workshop: calculate and comment on the simple VaR of an equity trading position using various confidence levels

Credit risk management

- Types of credit risk
 - Counterparty risk
 - Country risk
- Approaches to limiting and measuring credit risk
 - Country and global counterparty limits
 - Ratings: internal and external
 - Use of different limits for different exposures
 - Principal
 - Settlement
 - Pre-settlement
 - Intraday overdraft
 - Mitigating credit exposures
 - Collateral
 - Netting: contract netting and settlement netting

Case study / exercise: calculate the settlement and pre-settlement exposures on a bank's bond trading counterparty

Workshop: develop an audit programme for credit risk management

Compliance

- Compliance advisory (a.k.a. business compliance)
 - Advice on regulatory compliance
 - New product approvals
 - Trade monitoring
- Compliance other (a.k.a. central compliance)
 - Compliance training
 - Personal account dealing programme
 - Compliance control room
 - Licensing and registrations
 - AML/CFT
 - Disclosure of interests reporting

Audit techniques: how to spot trades that fail the 'smell test' before and after the fact

- Trades with no obvious commercial purpose
- Wash trades and trades with circular cash flows
- Off-market structures
 - Client motivation
 - Legitimate uses
 - Illegitimate uses
- Trades intended to achieve a specific accounting, tax or regulatory outcome
- Derivative structures that seek to disguise financing facilities

Case study: a structured derivative salesperson proposes a novel buyback structure

- Day 3 quiz

Day 4

Audit techniques: testing whether duties are properly segregated

- Segregation of duties
 - Testing methods
 - Documents and records required for testing
 - Indications that segregation is not effective
 - Impact and recommended remedies
 - Departments that must have functional independence from each other

Case study / exercise: Allfirst Bank, Baltimore

Futures brokerage

- Specification of financial futures contracts
- The business of a Futures Commission Merchant (FCM)
- Recap features of trading on exchange vs. trading OTC
- Features of the market
 - Central counterparty
 - Clearing members
 - Locals
 - Short-selling futures
- Commodity futures example: ICE Brent Crude contract
- Initial margin, variation margin, maintenance margin
- Settlement and reconciliation
- Derivation of the fair value of a futures contract
- Settlement and reconciliation

Case study / exercise: hedging jet fuel prices with commodity futures contracts

Global equities: cash equities

- Nature of ordinary shares
- Overview of Asian equity markets
- Exchanges and central depositories
- Settlement conventions
- Reasons to buy (and sell) equities

He draws on 20 years of banking experience from his internal audit and compliance roles, and keeps current with the industry through on-going consulting commitments to several investment banks.

He delivers a range of training courses to financial services professionals seeking to understand more about trading, risk management, accounting, and control of the most heavily-used financial instruments.



- Comparison of equities and bonds, equity investors and debt investors
- Equity performance measures
 - Price/earnings ratio
 - Dividend yield
 - Earnings Per Share (EPS)
- Restrictions on short-selling in some markets
- Looking for relative value – pairs trades

Case study / exercise: execute a pairs trade in the HK telecommunications sector

Audit techniques: additional testing and monitoring techniques for on-exchange instruments

- Trading near the close
- Block trades
- Monitoring significant interests
- Client securities and client money
- Position limits

Workshop: develop an audit programme to conduct a Futures audit

- Day 4 quiz

Day 5

Trading and market making (options)

- Introduction to options
- Option terminology

- Two simple approaches to option pricing
- The dice game
- Option payoffs
- Applications of equity options
 - OTC
 - Exchange-traded e.g. equity index option
 - Exchange-traded e.g. covered warrant

Case study / exercise: equity options

- Applications of FX options
- Applications of short-dated interest rate options (caps, floors and collars)
- Option risk management: The Greeks
- Features of interbank option trading
 - Volatility as an asset class
 - Executing option trades 'with delta'
- Documentation and operational control

Case study / exercise: National Australia Bank FX options

Workshop: prepare a matrix of the key risks and key controls in equity options trading

Audit techniques: testing whether trading valuations are independent

- Sampling
- Indicators that valuations are influenced by the traders

- Documents and records required for testing
- Impact and recommended remedies

Case study: ABN Amro Bank options trading, New York

- Controls over derivative valuation models
 - Production models vs. trader models
 - Model access and security

Audit techniques: testing whether trades are suitable for clients

- Sources available for sample selection
- Examples of trades that may be unsuitable
 - Combination of sophisticated product and unsophisticated client
 - Rollovers at historic rates
 - Trades with payouts dependent on multiple factors
- Documents and records required for testing
- Impact of findings, and recommended remedies

Case study / role play: a sales person resigns suddenly from XYZ bank

Closing exercise: rank the audit findings and rate the internal controls of Foreign Bank Sydney



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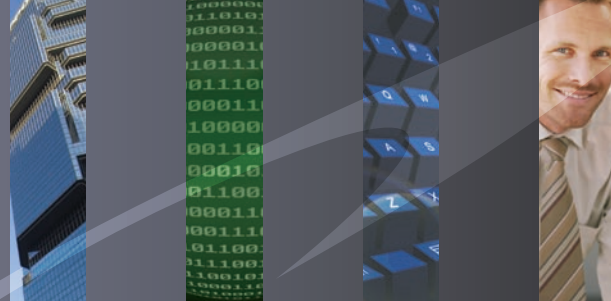


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Email
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Telephone
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Facsimile
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11 October 2010

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Registration form Yes, please register me for:

Investment Banking Audit School (MH4700)

on 8-12 November 2010, Hong Kong

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Delegate details (all of the following is required to process your registration)

Surname _____ Mr/Mrs/Ms

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How did you hear about the course? _____

Please tick which best describes your company:

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Course fee: US\$4,125

All fees are net of withholding, business and local taxes.

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Payment details (please tick as appropriate)

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I have read and understood the booking terms and conditions

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 This discount cannot be used in conjunction with any other offer.

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Venue

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Fee includes tuition, documentation, lunch and refreshments. Delegates are responsible for their own flights and accommodation. An invoice will be sent upon receipt of registration form.

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