

# Life Cycle of a Trade – Securities

1-Day

## INTRODUCTION

An understanding of the pre-trade situation is becoming more essential to middle and back office staff as trade volumes and product sophistication increase. An error benchmarking survey conducted across 24 members of the Australian Financial Markets Association in 1995-96 concluded:

- The average error rates across all firms for the respective products surveyed were:
  - Cash 4.2%;
  - Fixed interest 5.5%;
  - Foreign exchange 6.0%; and
  - Interest rate swaps 12.9%.
- The front office was the major source of these errors ranging from 60.6% for cash to 81.2% for fixed interest.

An increased awareness of pre-trade and processing cycles across staff will serve to lower error rates in an environment of operations risk capital charge proposed under Basle II accord. The Basle Committee believes that operational risk is an important risk facing banks and that banks need to hold capital to protect against losses from it.

Within the Basel II framework, operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems, or external events. This is another area where the Committee has developed a new regulatory capital approach. As with credit risk, the Committee builds on banks' rapidly developing internal assessment techniques and seeks to provide incentives for banks to improve upon those techniques, and more broadly, their management of operational risk over time.

## COURSE OBJECTIVES

This course provides participants with a basic understanding of the fundamental issues addressed and assessed in operations. At the end of this course participants will be able to:

- Understand key processes involved in operations processing
- Understand key transaction systems involved in clearing and settlement transactions
  - Describe the flow of a trade
  - Identify the fundamental issues in pre-trade, controlling and settlement
  - Identify and discuss operations risk management problems

## WHO SHOULD ATTEND

Middle and Back Office staff and executives

## **COURSE OUTLINE**

### **Module 1 – Securities Pre-Trade**

- Compliance
- Suitability
- Exchange vs. OTC
- Documentation
- Trade Motivation
- Market Participants
- Primary and Secondary Markets

### **Module 2 - Middle and Back Office Functions for Securities Trading**

- Role of Operations
- How operations are structured
- Function of Middle Office
- Settlement periods

### **Module 3 - Overview of Internal Processes**

- Organisation of Middle Office including key personnel and org chart
- Organisation of Back Office including key personnel and org chart
- Key IT platforms and systems
- Settlement and custody systems used for each product group
- Overview of compliance function