

Quarterly CPD Quiz

April 2009

Question 1

The Bank of England Inflation Report of February 2009 quoted the debt issuance of UK-based private non-financial corporations in January of 2009.

- (a) the largest January figure since records began
- (b) the largest January figure since 2001
- (c) the largest January figure since 2008
- (d) the smallest January figure since 2005
- (e) the smallest January figure since records began
- (f) don't know

Answer

The right answer is (a), the largest January figure since 2001

The actual figure was \$7billion. The issuance was heavily biased towards the most highly rated companies, as might be expected under the current circumstances.

*Bank of England Inflation Report February 2009, page 13/14
<http://www.bankofengland.co.uk/publications/inflationreport/irlatest.htm>*

Question 2

For high quality corporate bonds spreads have doubled since September 08 to over 5%. The Bank of England has published its estimate of the decomposition of this spread.

According to the Bank's estimate, which of the following is the largest component of the total spread?

- (a) compensation for expected default losses
- (b) compensation for uncertainty about default losses
- (c) a residual factor including compensation for illiquidity
- (d) irrational risk aversion on the part of investors
- (e) don't know

Answer

The right answer is (c) a residual factor including compensation for illiquidity

*Bank of England Inflation Report February 2009 page 14
<http://www.bankofengland.co.uk/publications/inflationreport/irlatest.htm>*

Question 3

The NIPS Code has been updated with effect from April 09 adding, inter alia, a paragraph on foreign exchange settlement risk and a modification to the gold section.

Which authority is responsible for the NIPS Code?

- (a) the Financial Services Authority
- (b) the International Swap Dealers Association
- (c) the Bank of England
- (d) HM Treasury
- (e) the British Bankers Association
- (f) don't know

Answer

The right answer is (c) the Bank of England

The NIPS Code deals with wholesale markets in, as the title suggests, Non-Investment Products (NIPS). The FSA Handbook deals with investment products.

ACT Website: <http://www.treasurers.org/NIPScore>

Question 4

In March 2009 the ACT published a briefing note on the corporate investment of liquid funds. When addressing investment in liquid money market funds, which of the following is NOT part of the advice given?

- (a) look for a powerful fund sponsor
- (b) initial and continuing due diligence should be undertaken on the fund's investments
- (c) when using money market funds for diversification, care must be taken because most funds have a high proportion of investments in financial sector obligations
- (d) liquid money market funds can be regarded as the same as enhanced yield, cumulating net asset value funds which give a higher return
- (e) don't know

Answer

The right answer is (d) liquid money market funds can be regarded as the same as enhanced yield, cumulating net asset value funds which give a higher return.

The briefing emphasises:

Do not confuse liquid money-market funds (rated AAAM from Standard & Poor's, Aaa/MR1+ from Moody's and AAA/V1 from Fitch) – conservative, constant net asset value funds, where interest is re-invested daily so the price of invested units is targeted to remain constant and the number of units increases – with the more aggressive, more risky, enhanced yield funds which seek higher income from a more risky portfolio and tend to be cumulating net asset value funds

ACT Briefing Notes march 2009: <http://www.treasurers.org/investingcash>

Question 5

The February 2009 issue of The Treasurer included a quote from Moody's, the credit rating agency. The quote read "_____ reputation has benefited from the current crisis, reflecting their conservative approach to business ... and their focus on the basics of banking."

What are the missing two words?

- (a) building societies
- (b) mortgage banks
- (c) investment banks
- (d) commercial banks
- (e) Islamic banks
- (f) universal banks
- (g) Don't know

Answer

The right answer is (e) Islamic banks

The lack of involvement with wholesale markets and the emphasis on the principles of Islamic banking have meant that these banks now have a much stronger position than before the crisis. The Treasurer article goes on to discuss the issues raised.

*The Treasurer February 09, "Flexible Conduit" by David Testa of Gatehouse Bank
ACT website: <http://www.treasurers.org/node/4593>*

Question 6

In February of 2009 the Bank of England announced plans to purchase Commercial Paper issued by UK corporates providing qualifying conditions were met. These plans were reported in The Treasurer, Technical Update of March 2009. Spreads were quoted for purchase dependant on the rating of the issuer, as margins over the overnight index swap three-month rate, which has averaged around 100 bp below LIBOR.

During April 2009 the Bank has updated its position on the purchase of Commercial Paper, confirming its intention to to operate the scheme for the duration of the current market turbulence and giving a minimal timescale for the withdrawal of the scheme.

What is the minimal notice for withdrawal of the Bank of England CP purchase scheme?

- (a) 3 months
- (b) 6 months
- (c) 9 months
- (d) 12 months
- (e) Don't know

Answer

The right answer is (d) 12 months

The Bank confirmed that it would give "at least 12 months notice" of withdrawal of the scheme.

The Treasurer, Technical Update, March 2009 p 11 for initial report.

ACT Website: <http://www.treasurers.org/boeassetpurchase> for recent announcement on notice period etc 24th April 2009