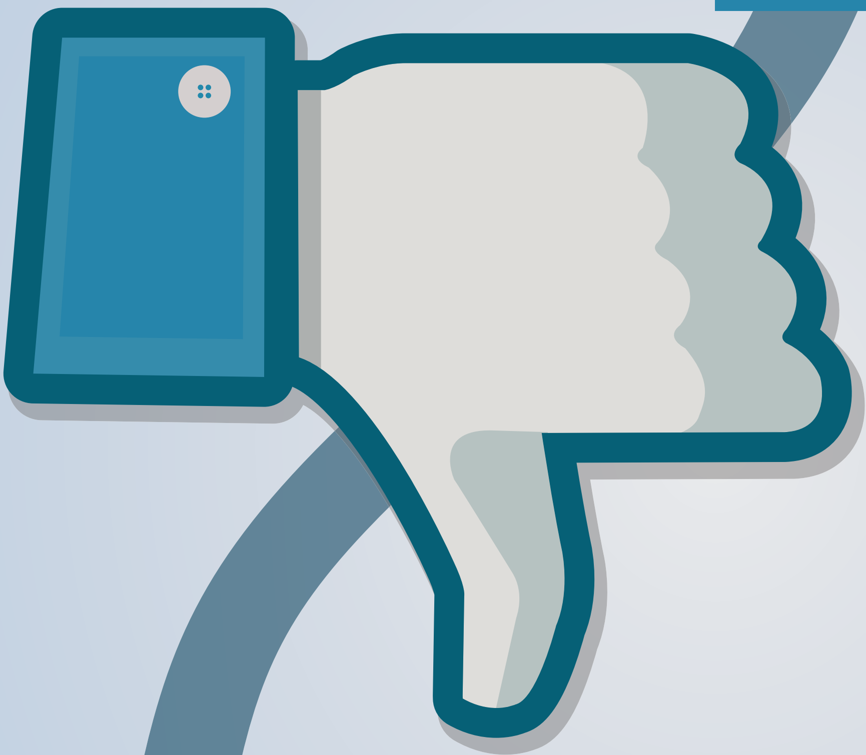
CAPITAL

The Imperial College Finance Society Magazine

2012/2013

FACEBOOK IPO

A Clash of Opinions



In-Depth

Glass-Steagall Act
A look at CDS Volumes
Chinese Real Estate
Interest Rate Policies
Investment Banking Demystified

Exclusive Interview

Arab Spring or Arab Winter?

Banks in the Press

Banker bad press: Hot air or cold reality?

LEFT Canary Wharf on a mild summer day

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Thank you for reading this magazine.

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A word from the president

BOTTOM Giri Kesavan. President of ICFS.

Welcome to Imperial College London, the Imperial College Finance Society (ICFS) and Capital Magazine for 2012-2013. ICFS is one of the largest and most pro-active student societies across the college and we are extremely excited about our initiatives and activities over the coming year!

Over the summer we have built up strong relationships with banks and government organisations from across financial services – and in close partnership, we will be organising 30 events comprising of panel discussions, challenges, networking dinners, company visits, conferences & an international trip over the next few months. With opportunities to get involved whatever your degree course, year of study and experience in finance, ICFS really has something to offer for everyone across the college. Our aims this year can be summarised in just three words: Educate, Inspire, Motivate.

Finance can be an extremely intimidating career path to break into thanks to the nature of the industry and the competition for applications. Through our educational initiatives, we hope you will have the platform to learn about the industry and see not only where your dream lies – but how to actually get there! However, we also understand that not everyone can religiously follow the financial press – so we are here to help you learn more about the industry with:

- Numerous panel discussions, case-study events, games & challenges
- An online learning portal with an introductory guide to investment banking and its divisions
- Application hints and tips including testimonials and experiences
- Capital Magazine – complemented with an additional quarterly publication
- Learning videos and market news presented by ICFS committee on our YouTube Channel

We are also excited about our series of social events, off-campus visits and tours which will really inspire you to consider careers in finance and help you with your applications. This aspect of the society has been completed overhauled for this year. We are going on tours of the Bank of England, company visits and trading floor tours, hosting dinners in the city with our sponsors in addition to organising the most ambitious international business trip in the history of the ICFS to the Asia-Pacific.

Our core activities are complemented by one of the most successful investment clubs in the country in addition to our annual flagship global conference – which has significantly expanded in size and scope for this year.

As a close-knit committee, we really believe in motivating & inspiring you to achieve your dreams and aspirations in finance – and we will do all we can to help. Whether it's about applications, interviews, events, getting involved in the committee or just for a chat, please do reach out to our team !

For first year students, ICFS offers an exceptional opportunity to build both your technical knowledge of finance and personal skills (I can say this from my own experiences!) from the start of your career. Take advantage of the opportunity and get involved in our events and activities. For continuing students, I hope that this year you continue to actively engage in the society and in the new and innovative events that we are coordinating across London and across the world.

Educational. Inspirational. Motivational. That's our vision and I very much hope you will become part of it over the next few months. Have a fantastic year !

Best Wishes,

Giri Kesavan
President
Imperial College Finance Society
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www.financesociety.co.uk

ICFS Committee

Get to know your committee members

Giri Kesavan

President - Electrical & Electronic Engineering [Third Year]
Giri is responsible for coordinating and managing the activities of all ICFS teams including the core society, Investment Club & New Financial Worlds Conference. Over the summer the ICFS has significantly changed its relationships with sponsors and the focus has shifted to organising specific, targeted, innovative and exciting events both on and off campus. With a key ethos of education and professionalism without elitism, members will have more opportunities than ever before.

Siting (Christine) Kan

Vice President - Head of Corporate Relations - Mathematics [Final Year]
Christine leads the team of Corporate Liaison Officers (CLOs) who act as the point of contact on a logistical level between sponsor firms and ICFS. She is also responsible for coordinating off campus events including company visits & dinners and will help to organise the ICFS International Trip for 2013 which has significantly expanded in scope.

Thomas Lim

Vice President - Technology - Electrical & Electronic Engineering [Second Year]
With a strong emphasis on technology this year, Thomas has been building upon last year and adding new features to the ICFS and ICIC websites. He has redesigned the registration and mailing list systems so that members are able to become notified of opportunities most relevant to them. Furthermore, he has been developing new initiatives such as an iOS application and Youtube Channel content for sponsors.

Mario Hayashi

Editor - Capital Magazine - Computing [Final Year]
Mario is responsible for the design and compilation of Capital Magazine in addition to a new quarterly newsletter - Capital Insights. He coordinates a team of writers from across the college, edits the articles and designs the layout for the magazine.

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Visit our website
www.financesociety.co.uk

Deepka Rana

Vice President - Head of External Partnerships - Physics [Final Year]
Deepka's role is to maintain a strong dialogue with all ICFS sponsors & partners throughout the year, ensuring ICFS understands the specific marketing requirements needed for each firm. This summer she has been instrumental in generating links with new sponsors and government organisations to further broaden opportunities for our members - increasing the number of unique events and sponsorship to the highest levels the society has ever seen.

Avtar Rekhi

Vice President - Head of Events - Mechanical Engineering [Second Year]
Avtar coordinates all ICFS events including networking sessions, dinners, trading games, challenges, festivals and company talks. He is responsible for a team of Event Offers who will ensure the smooth & efficient running of over 30 ICFS events in 2012-13.

Grahame Harris

Vice President - Marketing - Mathematics [Third Year]
Grahame's role is to ensure that the society continues to expand upon its marketing initiatives and ensure that all ICFS events and activities are prominent on campus. This encompasses both on and off-line marketing. He also coordinates the marketing activities at Freshers Fair and other large scale ICFS events.

Jia (Tia) Cheong

Treasurer - Mathematics [Second Year]
Jia Ee manages the finances of the society. She works closely with the president to coordinate and ensure all the events organised by the Finance Society will be able to run smoothly with their stipulated amount of budget.

Xingyang (Tracy) Lin

Secretary - Mathematics [Final Year]
As the Secretary of ICFS Tracy is responsible for ensuring effective communication between the ICFS and its members. She also arranges all ICFS dinners and social events for members in addition to acting as the point of contact for any enquiries relating to the society.

Twist or unstick?

Will the Fed engage further QE? by Thomas Herrington

Speculation is rife, will or won't the US central bank, the Federal Reserve (Fed), launch a third round of debt purchases known as Quantitative Easing 3 (QE3)? August's Federal Open Market Committee (FOMC) was highly accommodative with further intervention implied should economic and financial conditions worsen. However, following August's US nonfarm payroll figures, short term hopes for QE were dealt a blow after the economy added a decent 163, 000 jobs compared with June's meagre 80,000. This bounce may deter the Federal Reserve from launching QE3 at this point - favouring a softer approach while they wait to see how the economy fares this autumn. August's statement was hotly anticipated, with experts ready to analyse every line for clues. To the markets disappointment the meeting did not yield an announcement on QE, however the committee, chaired by Ben Bernanke, did acknowledge the economy was slowing, saying it "will closely monitor incoming information" ready to "provide additional accommodation as needed to promote a stronger economic recovery." Essentially, if the economy continues to stutter then the Fed will move. GDP figures showed growth for the second quarter had slowed to 1.5% - down from the 2% registered for the first, while unemployment, even after July's figures, remains elevated above 8%. Since the 2008 credit crisis, the Fed held interest rates at a historically low level of 0-0.25% with the pledge to maintain this until 2014. To help improve lending conditions the Reserve has implemented two rounds of quantitative easing, purchasing nearly $3 trillion of debt on the secondary market with the last round finishing in summer 2011. Rather than announcing a third round (QE3) the Fed engaged "Operation Twist," a monetary policy where the Fed buys long date Treasuries (government bonds) whilst simultaneously selling the short term bonds it currently owns.

Why Twist?

The philosophy is that the purchase of longer dated bonds will drive up their price lowering the yield (level of interest paid) while in contrast the selling of short dated bonds will drive down their prices raising the yield. The action should 'twist' the yield curve into something much flatter, diminishing the risk premium between lending money for long vs. short periods. Lower long term yields would aid the economy by making it less expensive for businesses and consumers to borrow money. Many see the action as not drastic enough pointing to the recently disappointing GDP figures.

So if Twist's not working will we get QE3?

There's the golden question. The markets are screaming for another round after the economy showed signs of sagging. The US stock market has risen steadily over the last couple of months, for example the S&P 500 index has rallied over 10% this year off the back of strong corporate earnings and amid rumours of further Fed stimuli. Optimists may also point to the fact the Fed has taken steps to improve the economy in two of its five FOMC meetings this year. Although many now point to September's meeting as a platform for another announcement, calmer voices believe policymakers may resist temptation and ignore outside influence. The main limitation being there is very little the Reserve can do to spur economic growth, specifically as the problems facing the US and Europe are too large to be solved solely by central bankers. The forthcoming November presidential election may also deter the Fed; further stimulus could be seen as a reprieve for Congress and its inability to agree on a deficit reduction strategy.

TOP Facade of the Federal Reserve Bank of San Francisco.

If not QE are there any other options?

Yes, In July's congress speech Ben Bernanke identified "still tight borrowing conditions for some businesses and households." A clear incentive may be to tackle these restrictions through a "Funding for Lending" initiative, similar to the one announced by the Bank of England. In fact in June's press conference the Fed chairman expressed interest towards the scheme - which would require the Fed to lend short-term Treasury Bills to banks who can then use these as collateral for the borrowing of cheap money. Although American mortgage rates have been falling for almost four years, the number taking up mortgage applications is at a record low, hampered by the stringent lending criterion. Such a scheme may spur lending through lessening of these standards. An alternative and perhaps simpler strategy could be to lower the interest paid on commercial bank reserves. Most banks will deposit cash with the Fed, especially in times of economic uncertainty, because it is seen as a safe choice with a guaranteed return. With this incentive removed then they may be forced to lend more freely in order to turn profit. Clearly both schemes have drawbacks. The "Funding for Lending" scheme may be difficult to emulate if the Fed is out of short-term Treasury bills from its Operation Twist programme, while for the second scenario banks may prefer short term losses on their reserves rather than taking on a riskier lending position.

> Very little the Reserve can do to spur economic growth

Conclusions

So the Reserve is in an uncompromising position - it is being pressured to respond to stalling figures for the American economy whilst also knowing that any option it picks will alone not solve the world's credit problems. September's FOMC meeting will be met with great interest although investors hammering in the words of Oliver Twist "Please sir can we have some more," may find themselves disappointed for the time being. Regardless, all eyes are on the Fed.

CAPITAL MAGAZINE

Solving the Denmark CDS Puzzle

Demystified by Pavle Sabic and Ratul Sood

Like other safe havens, Denmark currently offers very low yields on its debt. However, unlike other havens, the CDS spread on Denmark has been widening sharply since June 2011. In our analysis, we determined the fundamental reasons for this discrepancy.

Denmark Yields Continue To Drop

Denmark's total debt has reached DKK758 billion, or 43.5% of GDP (at the end of 2011, according to Denmark National Bank), less than half of the European Union (EU) average. The country also has a consistent track record of fiscal discipline and prudent macroeconomic policies. The yield on the country's debt is negative up to two years (see Chart 1).

The krone's currency peg to the euro as part of the Exchange Rate Mechanism (at DKK7.46/EUR1, with a 2.25% fluctuation band) is one possible reason that short-term yields are negative. The fixed exchange rate policy also provides solid ground for price stability in Denmark. Inflation in Denmark has historically been in line with inflation in the eurozone.

The increased demand for Denmark bonds is because "Danish bonds have been even more of a haven than German Bunds, with 10-year yields dipping below 1 per cent at the start of June, 2012. In a disaster, the krone would probably be re-pegged against a new Deutschmark, but investors would avoid the legal uncertainty and disruption of a new German currency," according to the Financial Times article "Soros wannabes focus on Swiss franc," published June 12, 2012.

CDS Spreads Tell A Different Story

The CDS spreads for Denmark, Germany, Sweden, Norway, Switzerland, the U.K., Finland, and the U.S. show a contrasting picture (see Chart 2). The Danish CDS spread (five-year mid prices) rose suddenly, widening by 193.18% in 2011, reaching an all time high of 159.42 basis points (bps) in September 2011. On the other hand, the five-year German CDS spread increased 71.6% in the same time. Signs of weakness in Denmark's banking system may be the reason for the rise in the CDS spread.

Banking Crisis Financing Requirements

Since 2007, 12 banks have failed in Denmark. Although these banks were small by international standards, this is an unusually high number of bank failures for a developed market. Up to 15 more Danish banks could be at risk of becoming insolvent, causing an estimated sector loss of DKK6 billion to DKK12 billion over a three-year period, according to Standard & Poor's Ratings Services (see "Banking Industry Country Risk Assessment: Denmark," published July 17, 2012, on RatingsDirect). A number of banks made use of government guarantee, which was part of Bankpakke I in 2008, and at the end of 2010 there were 50 Banks that had issued DKK193 billion of government guaranteed debt. This debt is maturing in 2012 and 2013 and constitutes about 30% of all outstanding senior bank debt issued by Danish banks. If the situation in the banking sector gets worse, it could potentially lead to a government intervention in order to save some of the struggling banks, and this could be one of the reasons for high sovereign CDS on Denmark.

> CDS spread on Denmark has been widening sharply since June 2011

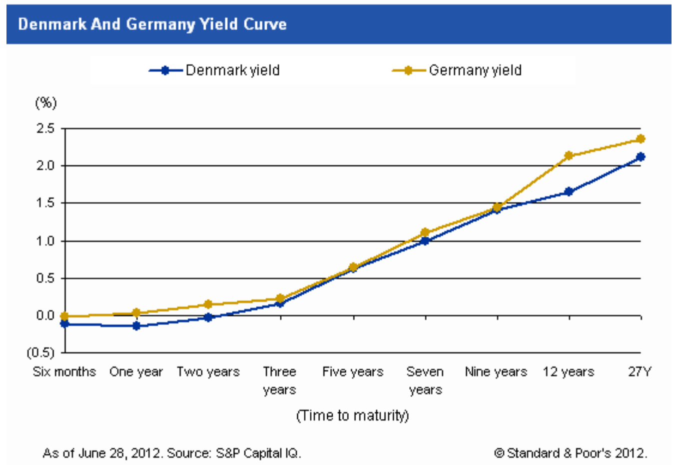
On Nov. 9, 2011, Standard & Poor's Ratings Services said it was revising its Banking Industry Country Risk Assessment (BICRA) on the Kingdom of Denmark (AAA/Stable/A-1+) to group '3' from group '2', as the economy continues to deal with the fallout from the 2009 crisis and economic growth over the short term is expected to be weak. A BICRA is scored on a scale from 1 to 10, ranging from what Standard & Poor's views as the lowest-risk banking systems (group 1) to the highest-risk (group 10). Other countries in BICRA group '3' include Korea, the U.S., the U.K., and New Zealand.

The Housing Bubble

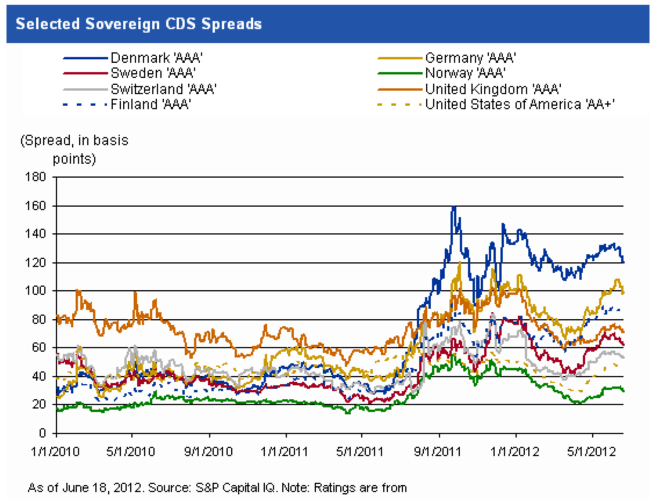
Furthermore, Denmark is also struggling with a housing crisis as house prices have plunged 25% since their peak in 2007. Although the prices for single-family homes fell back to affordable levels, there is considerable variation between different types of real estate. Standard & Poor's expects a further fall in real estate prices in 2012 and 2013 (see "Deleveraging Denmark--How Much Further Is There To Go," published May 7, 2012).

The Scene in Scandinavia

Sweden's current account surplus continues to grow reaching SEK 242.8 bn in 2011 (up from SEK 229 bn from a year ago), according to data from Nordic Outlook report by Danske Research published in July, 2012. Public debt in 2011 was 38.4%, which is lower than Denmark (46.5%) and substantially lower than countries like Germany and Italy (81.8%, and 120.5% in 2011 respectively). Strong economic fundamentals set Sweden apart from many of its competitor nations and keep the CDS spreads on the country lower than Germany, Denmark and the U.K.



RIGHT Chart 1



TOP Chart 2

The story is about growth in Norway too, as growth appears above the long term trend and unemployment is falling. Oil investment is rising faster than anticipated (estimated at close to NOK 200bn in 2013, up NOK 51 bn from similar forecast in 2012. SSB figures from Danske Markets) and is making a big contribution to growth in the Norwegian economy – both directly through increased activity and indirectly through strong income growth. Given the strong economic conditions in Norway, and growing GDP figures the CDS spreads are amongst the lowest in the region.

Yield on Swedish Government bonds and Norwegian bonds have been falling, however they are still higher than Denmark. One main reason for this is the Danish currency has strong demand due to its euro peg. As the eurozone crisis continues, the demand for DKK could increase, and in that case there might be further rate cuts and government intervention to maintain the peg.

Meanwhile in Finland, exports continue to fall (down -0.2% in Q1 2012), causing CAPEX in several export markets to be postponed and remain weak. As Finland is the only Nordic country to use the Euro, deterioration in the eurozone may have adverse consequences for the Finnish economy.

Conclusion

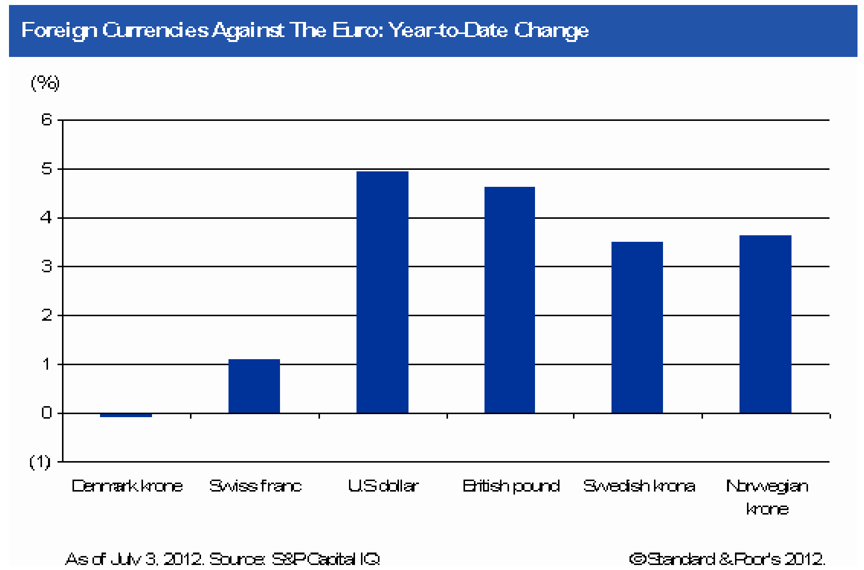
The Danish government is able to issue securities with negative yields for up to two years, and its 10-year government bonds are trading with a lower yield than the equivalent German bonds. Norway and Sweden run a lower budget deficit and government debt levels than Denmark, and are attracting international interest in their securities but offer higher yield than Denmark. Unlike Norway and Sweden, Danish CDS spreads have increased due to the banking and housing crises in the country.

Denmark distinguishes itself from Sweden and Norway through its fixed exchange rate policy with the euro (see Chart 4). This means that if the picture suddenly shifts, the risk of the Danish currency weakening is considerably less. While there are considerable concerns about Danish banks and the ongoing housing crisis, the Danish bond market appears very healthy and demand for its bonds is increasing.

About the writers

Pavle Sabic FRM, Solutions Architect at S&P Capital IQ
Ratul Sood, Junior Analyst at S&P Capital IQ

Disclaimer



RIGHT Chart 3.

momentum

Set opportunity in motion

Careers in Europe, the Middle East & Africa

Face challenges with confidence. Nimbly navigate every obstacle in your path. It's that unique quality that's positioned you where you are today. And it's what we value at Bank of America Merrill Lynch. Join our team, and we'll open your career path and give you new opportunities to take the possible and make it real. We'll solicit your input and provide training, mentorship, and support to boost your aspirations to a global level. And as part of the world's leading financial institution, you can create the kind of opportunity that begets greater opportunity and bigger impact than you ever imagined.

Amplify Trading

How to boost your chances of successfully cracking the Investment Bank recruitment process

TOP Interviewee, Jiajun Tan.

Top tier Investment Banks receive literally hundreds of thousands of applications each year for their graduate training schemes and summer internship programmes. Less than 5% of applicants actually end up being successful. The Banks are looking for candidates with not only exceptional academic credentials but also relevant practical experience in the finance industry. Students competing in this recruitment process in the main have the academic credentials required but do not have the practical experience.

Jiajun Tan is one of many Imperial College Finance Society members who has completed the Amplify Trading training programme in order to enhance his prospects of cracking the IB recruitment minefield. We asked Jiajun how being part of the Amplify summer 2011 intake enhanced his investment banking prospects.

What was the main reason you joined the Amplify Trading programme?
I have been interested in a career in trading ever since i came to University and because of my degree background and very limited experience in the field I was looking for a programme where I could be exposed to the markets from a practical point of view. Amplify suited the bill perfectly.

Did the training live up to your expectations?
The first week in-house training was very thorough and started from a very fundamental level, which to someone with no financial knowledge was a very welcoming introduction to the market. The following week consisted of daily instruction of new materials where they can be put to practice straight away in real-time market price action, one learns the most by getting one's hands dirty. It's certainly true here.

What was the most valuable aspect of the training?
For me the most valuable aspect was definitely the market knowledge, from not knowing what monetary policy was at all to then being able to confidently analyse Federal Reserve and ECB statements as well as assessing the macro US economic data was a major step forward for me.

Did the Amplify training help secure your position at a leading Investment Bank? And if so how did it help?
Absolutely, I was able to demonstrate my interest in banking simply by stating the fact that I was involved with Amplify. Of course the market side was very helpful too, in terms of conversing with the interviewer on my opinions in the market etc. I certainly could not have obtained 4 internship offers for Sales and Trading from Citi, HSBC, RBS and Deutsche Bank without Amplify. Of the 4 banks I decided to pick Citi and I have just completed my summer internship which went very well. To be perfectly honest with you, I really could not have done it without Amplify!

Would you recommend Amplify's training to other Imperial Finance Society members and if so for what reasons?
I would definitely recommend it to everyone. First of all, it provides hands on experience in trading the markets, second of all it provides the necessary market knowledge to form and execute trading ideas. Also networking with other Amplify interns, some of who I have no doubt will make it big, is a plus.

Amplify Trading

Find out more about Amplify's training
http://www.amplifytrading.com/professionaltraining

Arab Spring or Arab Winter?

An exclusive interview with Mr. Mohammed Rachid

by Yasser Rashid

TOP City view of Cairo, Egypt.

An examination of the recent and prospective political economic developments in the Middle East and North Africa (MENA) region within the context of the 'Arab Revolution.'

Background

Since late-2010, there has been an unprecedented political movement across the MENA region, categorized by images of ordinary citizens and civilians storming the streets to protest against their long-standing politically oppressive regimes and demanding comprehensive political, economic, and social reforms across democratic lines. The 'Arab Uprising' has already brought the incumbent governments of Libya, Egypt and Yemen to their knees, and the movement is still an on-going challenge for many Arab states in the region, most notably Syria. In spite of the many changes and transitions the region has undergone in the 18 months since December 2010, many political commentators expect the journey towards a gradual, long-term and region-wide transformation has just begun. Understanding the situation and its various political and socioeconomic characteristics is a daunting but necessary task for anyone with a vested interest in the region.

Unedited Interview with Mohammed Rachid

The motivation for these Arab revolutions and uprisings in the MENA region appear to have largely been fueled by economic reasons, more specifically by 'economic marginalization' of the new generation of Arab youths, as demonstrated by some shocking statistics related to literacy, poverty, and unemployment rates in the region. However, some have shown concern that the youth's inability to organize and lead effectively creates a political vacuum in the post-revolutionary chaos; a vacuum that is increasingly being filled by the Muslim Brotherhood. What are your thoughts on this issue?

First of all, it is a mistake to think the Arab revolution is only the result of economic problems. The source of the Arab uprising is actually much more profound and rooted deeply in history. After the withdrawal of all kinds of foreign occupancies in the region post-WWII, such as the British and French, we had what we called the creation of the independent and national Arab state. It was supposed to be an exciting and joyous time because everyone thought they now had the national identity that is borne out of having a national state. However, the reality of the situation, across the board, from Egypt, Iraq, Syria, Lebanon, and through North Africa, was a huge failure because it resulted only in dictatorship. Of course, the poor economic situation in many of these countries, coupled with serious and damaging corruption, added to this deep problem of lack of political freedom. Keep in mind, most of the Arab nations are among some of the richest and wealthiest states on this earth because of their significant oil reserve and a large number of natural resources, all capable of sustaining a meaningful quality of life. However, in almost every Arab country, you can see with your own eyes the poor conditions that many people live in. So, we can say, the revolution had both historical roots and current driving reasons. The historical roots stemmed from a lack of democracy, lack of freedom of belief and opinion, and lack of basic human rights, then you add to it the poorness of the people and lack of economic development, with corruption and bad-dated regimes, and you get the Arab revolution and contagion uprisings across the region, and still, there are more revolutions yet to come.

> Mistake to think Arab Revolution is only result of economic problems

Now, why 'political Islam', and in particular the Muslim Brotherhood, look like they're the only alternative or at least the powerful alternative is because in the last 50 years, these dictatorship regimes killed the political life in their countries, whether it was national, Arabic, or even 'le monde' global beliefs like Socialism and Communism. The whole political life in these Arab states in the last 30 or 40 years, was living on a duality, with the regime on one hand controlling the country's economy, political system, army, central intelligence and so forth, and on the other hand you had one organized opposition, on-going party, the Muslim Brotherhood. So, when the regime fails, it automatically falls to the Muslim Brothers. I believe, however, that if the process of democracy continues and the Muslim Brotherhood accepts democracy and its rule and state of law, we will see tremendous changes in the next 10 years.

experienced across different Arab states down to oil?

The United Arab Emirates (UAE) and Qatar are the only real exceptions because the wealth they have compared to the very small nations that they are, ensures that they can make their citizens happy, assuming they do not have political or ideological hopes. However, this assumption will eventually be challenged, as I said earlier, economics is not the only reason behind this new paradigm in Arab politics. The political reason will come up eventually and even the oil-exporting countries know this because they understand that the Arab uprising is a wave that nobody can control. And if you ask me my opinion, by 2020 we might see Arabian Kingdoms and monarchies, but it will be much closer to the British system.

Mr. Mohammed Rachid

Mr. Rachid is an expert in the political, economic, social, and cultural elements surrounding the MENA region and its constituent Arab states, having attained more than 20 years of experience as Chief Economic Advisor to the Late President Yasser Arafat. Rachid has been present along a large number of political and infamous events related to the region, including the singing of the Oslo Accord in 1993 and Camp David negotiations in July 2000.

LEFT Demonstrations on Corniche road. Alexandria, Egypt.

RIGHT Gaddafi's death in the press. President of Libya for 42 years. .

The Economist Intelligence Unit has set forth three fairly simplified scenarios for the region: 60% change of there being limited democratic reform, 20% change of returning to the status quo, and 20% chance of genuine democratic breakthrough. What are your opinions on these projected scenarios?

There are two key elements that will have a significant effect on this issue and the outcome in the future. Number one, does the Muslim Brotherhood truly believe in democracy both in the shot-run and the long run? Are we speaking of the Turkish, Malaysian, or Indonesian political model? Or are we leaning more to the Iranian Model? Closed society and controlled heavily. Number two, will the citizens of these nations accept that they replaced one dictatorship with another one, veiled with a thin difference that the new government, comprised by Muslim Brothers, will be speaking on behalf of God? Or will people turn back to the streets and reignite their desires and ambitions for democracy? No one can tell you where we will end up, but I cannot say I am optimistic. I don't see any meaningful movement towards the Turkish or Malaysian model, but it's still early. We will have to wait and see.

There appears to be a divergent between oil-exporting and oil-importing MENA countries in respect to the level of protests and momentum. Can we put the differences in the revolutions

Many commentators believe developments in Egypt will have a significant impact on the wider region, whether providing a blueprint or assistance for reform if the transition is successful, or encouraging widespread anti-democratic opposition if the transition stalls. Do you agree?

I think they [commentators] are mixing now and the future, and now and the past. There is no central state in the Arab world today; everybody is living with the perception of the past that Egypt is the biggest country in the Arab world and that what happens in Egypt will affect the rest of the MENA region. Egypt today, is no different than Yemen or Jordan, because the results of the revolution created or developed a new leadership, and this leadership has a long domestic agenda. Thus, regional agendas and priorities lose their importance because these leaders now know they have 3 years and a half before new elections, and if they fail in the domestic agenda, foreign policy will not help them. This is the basic element of democracy, which is good. If you look at the US, foreign policy usually has a much smaller effect on the elections, than say the social and economic condition, and after 9/11, you can add to that list national security. These are the three main elements that decide the next president of the US. There is also another risk, if the 'new leadership' fails in the domestic agenda and they go, or I should say run-away, to the regional agenda to cover the domestic failures, so nothing will have changed and we will be back to the 'old days.'

> I don't see any meaningful movement towards the Turkish or Malaysian model

Not everyone, especially in the Western world, is convinced of Egyptian President Mohammed Morsi's commitment to a modern and moderate Islamic democratic society in Egypt. For example, he shut down TV presenter Twafik Okasha for being openly critical of Morsi on his station and he managed the dismissal of several high-ranking military officials, most notably Field Marshall Mohammed Tantawi and Chief of Staff Sami Annan. Do you believe Morsi is in the process of consolidating anti-democratic power over the state?

Let's divide this issue. If Morsi is changing his leadership, whether in the army or administration, then that is his right. As the democratically elected president, he has the right to hire his team. The situation in Egypt looks very different than the US, but you simply cannot compare them. A newly elected president in the US cannot fire the Chief of Staff of the Army, but he can fire the Minister of Defense. There are

TOP In the heat of the Egyptian Revolution.

constitutional procedures and protocols that are clearly laid out and dictate how the US president can assemble his administration; the Chief of Staff will first serve his 4-year term before departing. Tantawi has held his position for some 26 to 27 years. We should give Morsi the benefit of the doubt and remember the name of the game isn't who is the head of the army or defense, the name of the game is will the Muslim Brothers in Egypt keep following the democratic path, or democratic elections for them was only an opportunity to grab and consolidate power.

The second part of the issue is the media and Okasha. Much more dangerous than the Okasha issue, is the new media laws and regulations that require national media agencies to appoint new chief editors, pushed forward by the Muslim Brotherhood. We are speaking about fully controlling Egypt's massive national media infrastructure. We can only hope that the government will dismantle its interference with Egypt's giant media. But when we speak about Okasha, Okasha was engaged in a political and media war with Morsi, and when you engage in a war, you have to accept the results.

There are increasing rumours of local violence in Egypt among a number of international news agencies. These rumours include dissenters and journalists being beaten and imprisoned, terrorists being freed from their jail cells, women attacked on the street for not wearing a veil, and even extreme rumours of crucifications and burning of churches. Are these just rumours or are they credible accounts?

There is oppression in the street. There are pressures on women. But you cannot yet say it is because of the new regime. The collapse of the Mubarak regime, for example, resulted in the power of the Muslim Brothers but also resulted, to a degree, the rise of the Salafists and other ultra extremist groups. It is difficult to tell who is doing the kind of street oppression you hear about, but personally, I do not believe that it is the Muslim Brotherhood.

Shifting the focus to Libya, commentators have noted that Libya's multi-factionalism, from liberals to moderates, and from tribal leaders to radical Islamists, is an immense hurdle facing political reform and prosperity. Where are your prospects for the post-Gaddafi Libyan state?

Let us agree that the collapse of the Mu'ammar Gaddafi regime was a significant step forward for the Libyan people. Libya, of course, faces the same underlying challenges as other Arab states, in that are we moving to real political reforms or are we replacing one despot with another? The difference from Egypt, as you point out, is that Libya has a large number of tribes and militias, and large vast territories that no single power can control. Even during Gaddafi, part of Libya was always out of his control and reach. Again, people should decide what they want, and then we can see how to help them. No body can help a nation if they don't want to help themselves. The situation in Libya is definitely challenging, and time will tell whether the country is capable and willing to make the necessary inroads towards democracy.

> You cannot say [oppression in the sctreet] is because of new regime

There is a lot of confusion and uncertainty surrounding the opposition in Syria and some have expressed concern that if Bashar al-Assad falls, than the minority groups in Syria will be targeted and exposed to violence. Clearly, Syria is proving to be a much more, if not the most, challenging political environment in the region today. What is your take on Syria?

In the last six months, there has been an increasing influx of rebels and external constituents flowing in the Syrian opposition scene. These external influences succeeded in coming in because the revolution is taking such a long time, relatively speaking, and the longer it takes, the more external influence you can expect to see. However, initially, it was the masses that took the streets, ordinary and civilian people including members of the military engine who defected.

Time will tell whether [Libya] is capable and willing to make necessary inroads towards democracy

What the incumbent regime is presenting as a solution today, will not work. The solution proposed by the opposition will also not work. Syria is a heavy political issue not only for the regional area and but for the whole world. Syria is not Yemen or Egypt, or any other Arab state, it is unique and as such it requires its own solution, let's call it a model, for transition that is led by a person or a group that is accepted by the majority of the opposition and majority of those who did not openly support the revolution.

It is not necessary to replace the minority ruling by majority ruling in Syria. In fact, Syria does not have one minority, you have some five or six significant minorities from the Alawites, Kurdish, Druze, Christian, and so forth, and these are 5-6 million people in total. They are no longer minorities. They are the second majority. If you target these people, you are targeting the Syrian people because Syrian people are married with each other and they go to work with each other. It takes a smart solution in Syria; different from other models and one that relies heavily on a transition period that satisfies both the major representative military and political bodies and the majority of the opposition.

You have to avoid two key mistakes in Syria that happened in Iraq. First, it would be rather foolish to dismantle the army, and two, to support debaathification. You can always remove 500 people from a political party, 400 or 500 generals and officers from the army, but the rest, what exists below in the lower ranks, are as much victims as any other victim in Syria. So, if we want to find a different and more effective solution, you should not dismantle the army and should not go for debaathification because of the risks and political vacuum it creates.

What about the consequences and the impact on Iran and foreign relations. Where is Iran seeing gains and where is it seeing losses to its political power and reach in the region?

Everybody likes to believe that the Western bloc and US lost its allies in the MENA region following the Arab revolutions. It's not true. There existed a great deal of hypocrisy between the West and Mubarak, the West and Gaddafi, to name a few. These relationships were not a kind of comprehensive partnership, but one based more on opportunistic quid-pro-quo policies. By this standard, you cannot say the West is losing and Iran is gaining. Really, the only obvious gain for Iran in the last 20 years is Iraq. Essentially, Iraq was left as a big present for Iran after the US toppled Saddam Hussein and his regime, and departed from the region.

Syria is pure loss for Iran. If Assad's regime falls, you cut the ground contact between Iran and its powerful position not only in Syria, but also in Gaza and Lebanon. This is why Iran supported virtually every revolution in the MENA region, but when it came to Syria, their support fell to the regime. In the long run, the Shia dominant Iranians are very concerned about widespread integration of the Sunni Muslim Brotherhood across the region. Iran and the Muslim Brotherhood, while both believing in Islam, have more political differences and problems than similarities. Sure, they can always identify an external enemy, like Israel, to get closer to each other but the relationship will not work in the long run because of the fundamental ideological problems and disparities they have between themselves.

Nobody can help a nation if they don't want to help themselves

What about the consequences and the impact on Israel? On one end, some political analysts have said Israel is scared of the loss of representatives in the region it had once trusted to a rising Islamist movement that may be less diplomatic with Israel and less hostile to Iran. On the other end, some analysts contend that Israel is the only country benefiting from the turmoil, as Arab states turn on each other and themselves. Thoughts?

Let's face it. Israel lived on the edge of saying they are the only democracy in this region. Losing this edge is something serious for the Israeli state. If in the next 5 or 10 years, you see ten democracies propping up in the Arab region that will weaken the historical argument that Israel used to say that they are the only democracy surrounded by an Arabic desert.

Now, the fears are genuine. They do not know the chain of command in the revolutions and upcoming governments; they can only see the tip of the iceberg. They see the Muslim Brotherhood and the Salafists (etc.) but this is only the beginning, not the end. There is a big question mark looming over the region for Israel. Democracy is not a dish you can do in 5 minutes, democracy is a process, and it requires laws, infrastructure, and changes in culture that goes far beyond voting and elections. Mubarak used to take 86-87%, Ben Ali used to take 88%, and Hafez al-Assad and Bashar al-Assad used to take 99.99. It's not voting. It's laws, behaviours, beliefs, cultures, including human rights, right of belief, and equal citizenship. And it's the ruler works for the people, not the people works for the ruler.

Going back, some of the threats Israel feels are genuine. As example, if the Syrian regime collapses, who will control the WMD? Will it go under control of the army, where they can secure it? The Israeli rhetoric is that they have to attack Iran because Iran is a threat. Fine, I understand that. But how can you attack Iran, while leaving the Iran arm in Syria, or Lebanon, or Gaza? It's bigger than Iran. If you're serious about fighting Iran, than you have to fight seriously those people who represent Iran in the war of proxy against you.

Do you believe Tunisia is the country that is closet to political reforms guided towards a truly modern Islamic democracy?

Tunisia is probably the closet to the Turkish political system. Rached al-Ghannushi was one of the founders of the Turkish model. He is also one of the founders of the Ennahda Party in Tunisia, and he is very experienced, educated, and exposed to Western culture. The challenge is how much of "Ghannushi's school" will control the Ennahda in the future, and how much the Ennahda can show strength and popularity against the Salafists. Tunisia could be the model, as it was the first revolution in the Arab Spring, it has the challenge and opportunity to set the tune to a modern Islamic party that believes in democracy and transfer of power. Tunisia could be the blueprint, but it could also be the collapse.

Palestine represents another interesting case of an Arab state that is facing some fairly unique circumstances in the region, most notably the Israeli occupation, but also the fact that the national government is divided between Hamas and Fatah. How will the Palestinian issue fair within the context of the Arab Uprising?

The Palestinian people are facing three severe storms at the same time. First, the occupation is becoming increasingly harsh with no real work or progress being made. Second, the Palestinian issue is no longer a meaningful priority for other Arab states or the international community. Third and finally, is the national division and fragmentation between Hamas and Fatah, and Gaza from the West Bank. The Palestinian Liberation Organization (PLO), Fatah, is working towards a single option solution with Israel, negotiations and nothing else. The opposition, Hamas, is also working towards a single option solution, arms-struggle, jihad, and no politics. Here is where you miss Arafat, who created a system where yes, you're negotiating the occupation, but at the same time you're resisting and maintaining the national dignity.

I think, what we will eventually see, is a kind of intifada (revolution) in Palestine. People today, including Palestinians, appear to show a certain lack of carelessness that gives the impression to the political system, whether it is Hamas or Fatah, that people accept their political agendas. However, I believe in time everybody will realize this was not and is not the case. Why have the Palestinian citizens been quiet till now? Palestinians have two major obstacles. First, unlike political systems, the people do not lose site of their priorities; the priority for the Palestinian people still rests securely with the occupation of an external presence. The second obstacle is this national division between Hamas and Fatah. With these two obstacles firmly in the path of the Palestinian people, they do not yet have a priority to push for the same political reforms and changes observed in Egypt or Tunisia, but there is definitely a limit to how long the Palestinian people are willing to wait. Without progress, this emerging intifada will launch the Palestinians onto the street in protest of not only the occupation, but also an uprising against everything that has been perceived to fail, including both Fatah and Hamas.

Many analysts and commentators draw associations from the fall of the Berlin Wall in 1989 to argue that the Western bloc and US should play the same kind of 'guiding force' they played for Eastern Europe in achieving democratic self-rule. Do you agree?

Why have Palestinian citizens been quiet until now?

What happened after the collapse of the Berlin Wall is not the same situation we have in the MENA region today. When the wall collapsed, you had surrounding East Germany a Western democratic civilization, and immediately East Germany dissolved into the 'mother land.' In our region, it is totally different. It is starting from the heart, but the surrounding areas are in no better shape than the heart itself. Of course, the Western powers should intervene and help manage the transition and transformation of the region on a case-by-case basis. However, somehow, during president Obama, foreign policy has become a lot less important and a much weaker issue for the administration.

Maybe the severe economic crisis is causing the US to pull back a little from global affairs. If you combine the military hardships in Iraq and Afghanistan, these two campaigns resulted in a serious loss of credibility and led to weaker economic conditions at home. Now, in the election year, the only thing that is important is getting (re) elected. Obama will not say something unless his campaign manager agrees with it. That is why I cannot see any active American role engaging in the MENA region before March 2013. And in terms of what to expect after March, will depend heavily on who the next president is.

Of course you also have the regional powers that are helping shape the region, such as the Gulf Cooperation Council (GCC). The GCC supported the Libyan people in bringing down Gaddafi and also helped mediate solutions in Yemen, and they are currently committing a great deal of effort in the Syrian revolution. The Arab League, however, is less effective; it has about the same effectiveness as the United Nations.

Arab League has about the same effectiveness as the UN

Do you believe that the Arab Revolution exposed al-Qaeda's ineffectiveness as an agent for political change since the current paradigm shift was propagated by a non-violent pursuit of political freedom from young generations?

It may be true that al-Qaeda's international network weakened, but I am worried and feel that there will be 'domestic al-Qaeda' groups coming up. I do not expect these domestic groups to identify officially with the al-Qaeda network per se, but I believe they will carry much of the same beliefs and ideologies.

In your view, what represents the worst outcome for the MENA region going forward?

I said it a year ago. Let us imagine that it is January 21st 2013 and we have a (re) elected president in the US, either Obama or Mitt Romney. Then, when we turn the camera back to the MENA region you might see a very scary picture, an Islamist movement spread so widely that it not only controls the MENA region but also spills over into Pakistan and Afghanistan. However, even with this tough picture, you have a few islands of democracy in the region. How the West will help these few islands of democracy, like Lebanon, Palestine, Israel, or Cyprus, will have a great bearing on the rest of the region. They could be the solution to help control the 'Islamic belt' (Islam with a political agenda, not Islam as a religion), or else we will see a kind of new Arab World Order, which will be much harder for the international community to handle. As I said earlier, the new regimes will be very preoccupied with the domestic agenda. So, that might give time for democracy to develop and mature, and to find and nurture strong allies in the West.

Can we construct a framework for analyzing and examining the politics in the MENA region; are we able to form groups or coalitions of individual Arab states in order to simplify the problem?

There is a slogan of 'Arab World,' but there is no reality of an Arab World. Each Arab state is unique and does not share any meaningful similarities to other states in respect to its economy, culture, society; everything is different. For example, Tunisia's GDP under Ben Ali was greater than the GDP of Libya, despite the latter being an oil-exporting Arab nation. Why? In Tunisia you had a lot of industrial developments and infrastructure, including international trade with Europe. You have to take the MENA situation on a case-by-case basis. You simply cannot simplify the situation.

Are there any other mistakes to learn from Iraq or its model of political system?

The Iraqi model was never really a genuine political solution, but the resulted outcome of a war. The powers that be drew the lines, they said, "these people are Shia, these are Sunni, and these are Kurds," but most Kurds are Sunni. They counted the Kurds not as an ethnic group, but as a national group. This model will eventually lead to the failed Lebanese model, where you will hit new problems not new solutions, and is currently why the country is facing political issues today. The Turkish model is not based on Shia, Sunni, or Kurdish or anything. You have national elections, you can come down with your political program or you can come down with the political religious program. And people will not vote for you because you are Shia or Sunni or whatever; moreover, its parliamentary system is not separated by quota elements on how many representative seats each 'faction' can have. This quota element will always lead to the Lebanese model, which represents a very weak democratic system.

Banker Bad Press

Hot air or cold reality? by Chandramouli Chadalawada

It seems as time goes on scandals are appear-ing ever more frequently in the banking industry. In 2012 alone the reputation of almost every major financial institution, from high street banks such as Lloyds and RBS to global investment banks such JP Morgan and Citi, has been tainted in a fresh wave of controversy with 16 banks implicated in the recent LIBOR scandal alone. [1] Even institutions such as Standard Chartered and Nomura which have been largely undefiled have suffered ignominy at the hands of tabloids and broadsheets alike [2], [3] .

Almost every major financial institution has been tainted in a fresh wave of controversy

All of this has had a devastating impact on the public confidence in finance professionals; a recent poll conducted by ITV placed bankers as the least trusted professionals with 78% of respondents not trusting bankers to tell the truth. This is somewhat ironic in an industry where, as stated by the CFA institute, the preeminent professional organisation in finance, "High ethical standards are critical to maintaining trust in financial markets and in the investment profession".

Undoubtedly, ethical and professional standards in the finance industry have been breached in recent times but it would be unfair to suggest that wrong-doing only occurs in finance with such corporate scandals endemic to virtually every industry. In July 2012, GlaxoSmithKline, the fourth largest pharmaceutical company, was fined $3 billion for illegally promoting prescription drugs, failing to report safety data and bribing doctors, dwarfing Barclay's $290 million and Standard Chartered's £340 million fines combined. [4] Similarly, Glencore, the commodities trading and mining giant, has courted controversy with its environmental record, questionable business methods and relations with rogue states with similar accusations levelled at many of its competitors such as Trafigura, Anglo American and Rio Tinto, among others. Closer to home, Danone was recently censured for making unproven claims as to the beneficial effects of its Acitivia line of yoghurts. In the same industry, Nestle's conduct regarding infant formula milk marketing in developing countries has been severely criticised by the World Health Organisations and other NGOs for almost 2 decades.

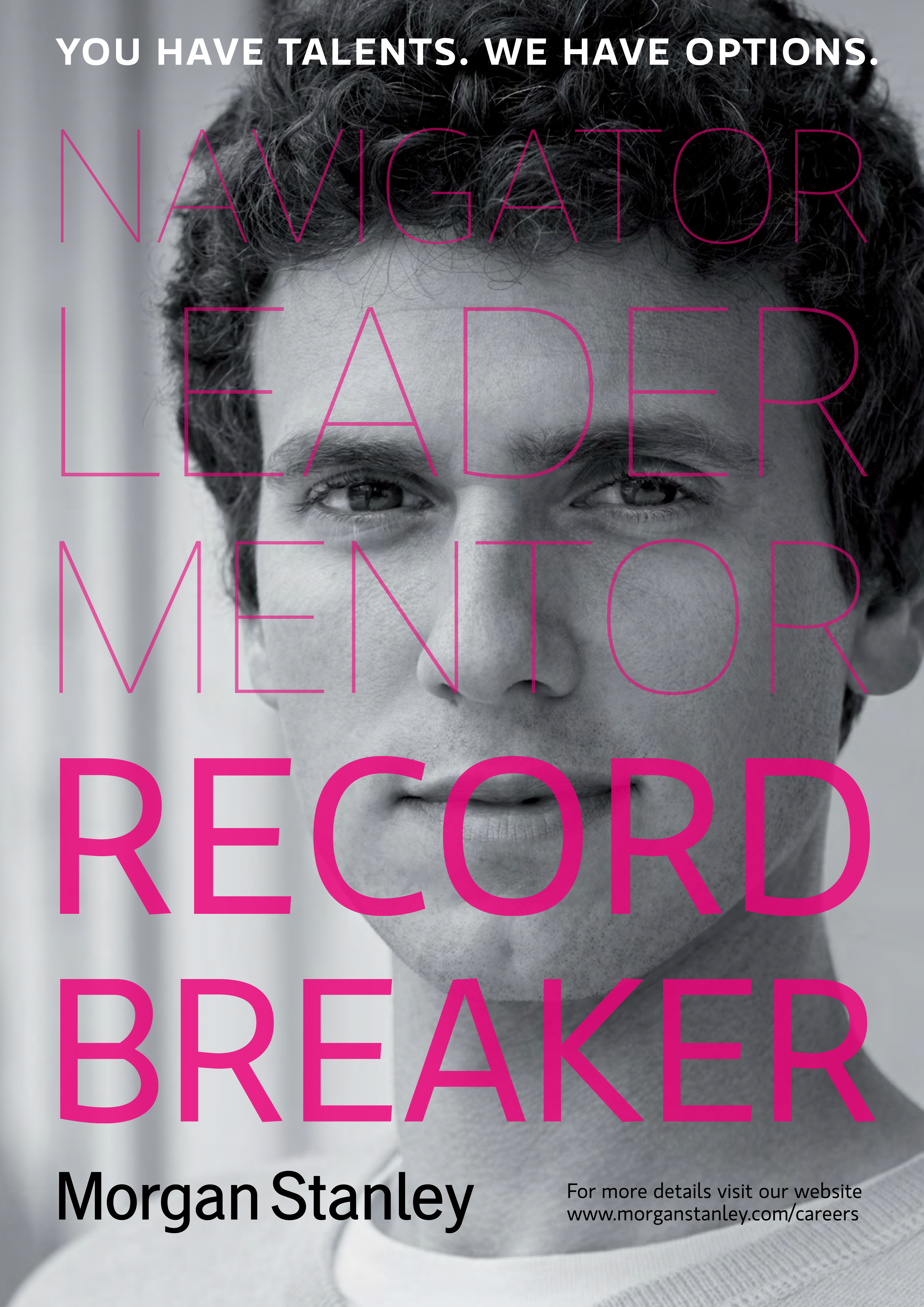
However, unlike the banking scandals, the long term effects on the reputations of these companies and industries has been minimal. Perhaps the simplest explanation for this is, as pointed out above, the sheer number of scandals relative to other industries. However, no other industry has evolved as fast or as completely as finance. Not only have the products and services offered become more and more complicated but the way these products and services are implemented, deployed and promoted is constantly changing. Additionally, clients are becoming ever more sophisticated with their needs changing at an ever accelerating pace. 20 years ago business banking amounted to little more than an overdraft, a business credit card and payroll facilities. Nowadays, a bank is expected to provide insurance against interest and currency rate fluctuations, asset financing and online analysis tools.

Unfortunately, regulators and governments simply cannot cope with this rate of change, as highlighted by Lord Turner's review of the events which lead to the financial crisis. For example, whilst globalisation lead to a intrinsically linked financial system, global regulators failed to evolve and concentrated on ensuring internal systems and processes in banks were compliant with regulations without analysis of systemic risks. In the same way we would never expect tennis players to judge their own line calls nor would we expect umpires not to understand the rules of the game, it is unfair to expect an industry to regulate itself perfectly without effective oversight.

Furthermore facets of the industry have also failed to evolve with remuneration policies arguably focussed too strongly on short-term personal performance. This is perhaps best illustrated in the cases of Kweku Adoboli and Jérôme Kerviel, the rogue traders from UBS and Société Générale respectively. Collectively losing almost $7.5 billion, both undoubtedly were driven by personal gain; by exceeding their trading caps they believed they would be able to increase the profit generated for the firm thus increasing their personal percentage cut which for Jérôme Kerviel was rumoured to be 0.5%. This would have netted him a bonus of around €600,000, barring his huge losses, illustrating the huge rewards and hence temptation to bend ethical guidelines. [5]

However, the importance of the media cannot be overstated. With the hangover of the financial crisis showing no signs of abating, public interest in finance is at an all time high and coverage has been propelled to the front page. There are many overlapping reasons for

RIGHT Financial news to remain in the spotlight.


YOU HAVE TALENTS. WE HAVE OPTIONS.
NAVIGATOR
LEADER
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this but perhaps the most important is the realisation of the tangible connection between the public and financial markets. There are very few industries which have the capacity to affect a greater number of people with such ease which has undoubtedly lead to media emphasis on banking scandals. This is perhaps best illustrated in the LIBOR scandal which, though it involved a handful of people, influenced transactions involving millions with a value of $800 trillion [6] . Similarly, the gratuitous trading of mortgage backed securities and credit default swaps which contributed to the collapse of the world economy in 2007, causing repercussions for billions of people around the world, was perpetrated by a small number of people at a handful of firms.

Whilst the tangible effects of these events is relatively easy to quantify, reputational damage is much harder and more subtle. A lack of trust in the financial system has lead to fewer people investing in stocks and a reduction in public deposits, hurting the profits of banks, mutual funds and brokers alike. [7] On a wider scale, with electronic transactions now accounting for the majority of world GDP, banks are effectively a central counterparty to the world economy hence trust in them is critical for the smooth running of the economic system.

Intrinsically there is nothing ethical or unethical about banking itself but the central importance of the financial system in the 21st century means that the ethics of bankers themselves must be unimpeachable. The size, scope and speed of industry means that almost everyone is a stakeholder in the industry and this must be reflected in not only regulation but the attitude to regulation. Compliance has long since been criticized by financiers for its restrictive effects but to retain the innovation and rigour of the industry, ethical standards must be embraced and not be imposed from outside but emanate from within. With an average of 60 financial regulations introduced every day globally, the industry is in grave danger of being smothered unless it can be trusted to police itself [8].

Size, scope and speed of industry means everyone is a stakeholder

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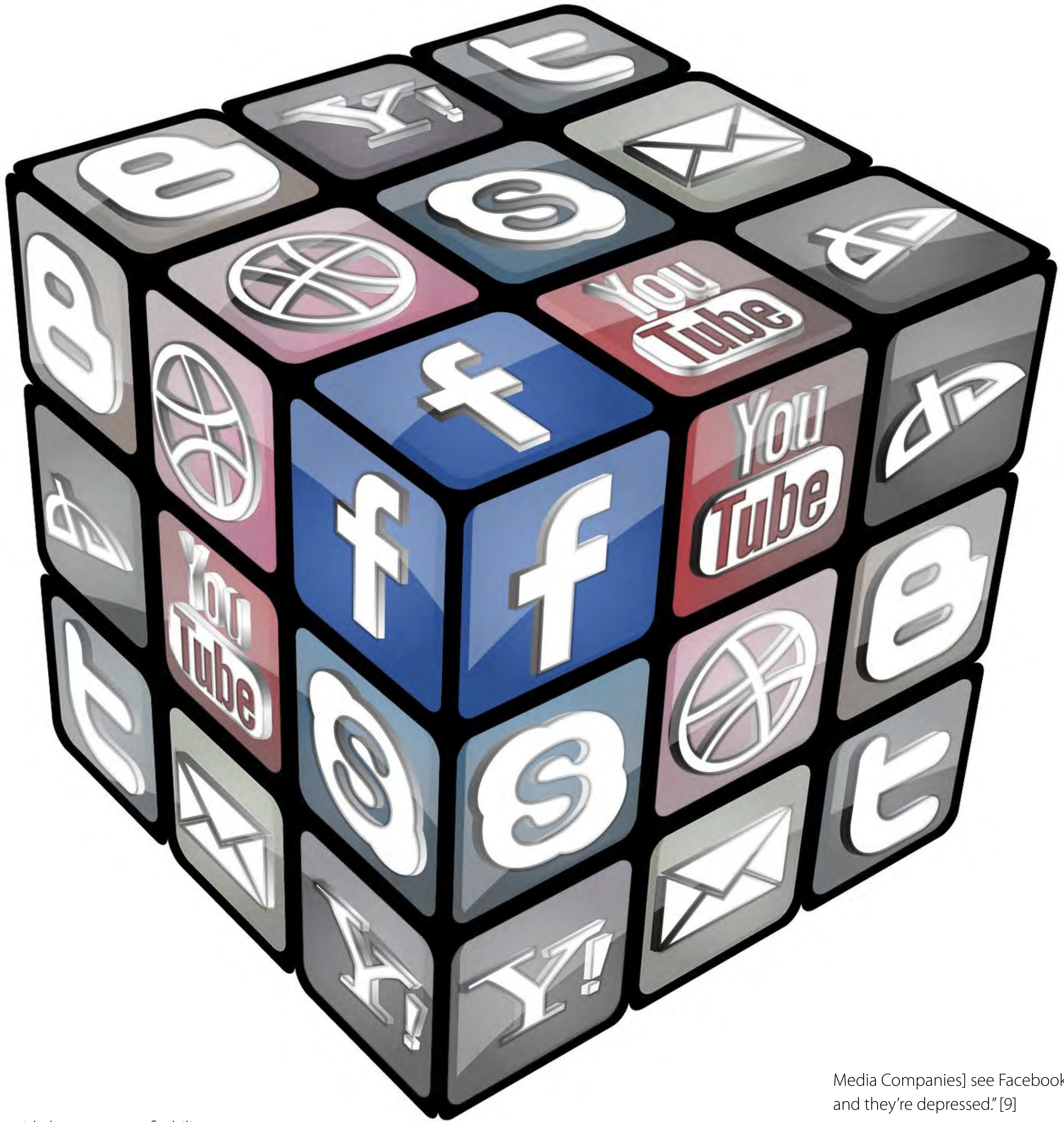
RIGHT The gherkin. A glimpse of the heart of the City.

Bigger than you might think

The impact of the Facebook IPO

by Yasser Rashid



RIGHT Social Rubic Cube. Facebook taking centre stage.

The hammer that broke the camel's back

The atmosphere in Menlo Park CA on May 18th 2012 must have simply been electric; one filled with jubilant and child-like excitement as CEO Mark Zuckerberg and fellow Facebook cohorts prepared to ring the NASDAQ opening bell, remotely launching the company's long anticipated initial public offering (IPO). This day would mark a significant milestone for Facebook, debuting at a jaw-dropping $104 billion market capitalization and raising a record breaking $16 billion in capital. However, as the passage of time bears witness, this is far from being the only reason that the Facebook IPO will be remembered for a generation to come.

Today, almost three months after Facebook's debut, the company is trading approximately $20 a share, down from an IPO price of $38 and shedding almost half its equity value. The days and weeks of consecutive new lows following May 18th prompted virtually every market pundit to ask the same question: Facebook IPO, success or failure?

Like a calamitous take-off, Facebook appeared to disintegrate fairly quickly off the runway. The day of the IPO was plagued with technical trading glitches, rumours that underwriters were buoying the stock, and repetitive concerns over the reality behind Facebook's valuation (FB went public with 100+ P/E ratio – five times larger than Google) [1]. It certainly did not help when General Motors pulled its $10 million advertising arrangements, publicly questioning the effectiveness of Facebook's targeted ads. These concerns soon transcended GM and were picked up as legitimate trepidations by various research analysts and market watchers [2]. The news only worsened as additional warnings flags were raised over the company's revenue growth prospects, mobile monetization strategy, departure of high-profile executives, expected release of billions of locked-up shares and increasing evidence of fake accounts and 'Likes,' all of which continue to fuel mainstream anxiety towards Facebook [3].

You don't have to go home, but you can't stay here

No other company is as pervasive into our personal lives as Facebook; with nearly one billion users not even the entire collection of shiny white Apple products can come close [4]. Despite its difficulties, Facebook remains entrenched as the poster-child of the social media industry, especially among the investing public [5]. This psychological acceptance of Facebook's iconic status at the epicentre of social networks leads to an intuitive and serious consideration. If Facebook is the poster-child for all the success and triumphant trappings of the social media movement, then it must too be the poster-child for all its woes. If Facebook cannot uphold expectations on sustainable revenue growth and long-term profitability, then what chances do other social media companies have?

> No other company is as pervasive into our lives as Facebook

Unfortunately, in respect to investor sentiment, it is the risks that sit in the driving seat while opportunities are not confined to the backseat, but to the trunk. In the wake of Facebook's IPO, other social media companies are facing 360 degrees of pressure from investors, analysts, market watchers, and even employees. Paval Durov, Founder and CEO of Vkontakte, recently disclosed that his company is facing emerging scrutiny and cynicism over its capacity to provide long-term profitability. Durov asserts that the "… [Facebook debacle] damaged many private investors' trust in social networks." Vkontakte is the Russian version of Facebook, currently more popular in Russia than Facebook itself and bolstering more than 120 million users [6]. Zynga is another social platform that is hanging on the coattails of Facebook's decline. The social game developer, which retains a unique and symbiotic relationship with Facebook, lost more than two-thirds of its value since the Facebook IPO in May [7].

The effects of Facebook's IPO has also trickled down to the early-stage market for technology start-ups, which is facing new difficulties in securing venture financing and maintaining attractive pre-money valuations[8]. Virtually any private, public, or start-up social media company is looking across the industry landscape at the rather overblown Facebook with a glare of contempt. Facebook is bringing the exuberant social media party to an obliterating end, as Wedbush analyst Michael Pachter recently pointed out, "they [Social Media Companies] see Facebook going down and they're depressed." [9]

It doesn't stop here

In fact, the Facebook IPO created what became known as the 'Facebook freeze' in the US IPO market; [16] May witnessed a swathe of different companies from diverse industries withdrawing their plans for IPOs. The Bloomberg IPO Index, which tracks companies that have been public for less than 12 months, declined by 15 percent in May; a similar decline was noted during the Lehman Brothers collapse in October '08. In summary, US IPO market activity fell by 38 percent in Q2 2012 compared to Q1. [17] But can one 'disastrous' IPO really kill the market for IPOs? In light of the global macroeconomic context, it would not be very difficult to scare off an already frightened investor.

Furthermore, the one element that stays consistent throughout any IPO is the underwriters; the investment banks are always there and they always comprise the same set of 'usual suspects' in any headline-grabbing IPO. The recent Facebook IPO does nothing to quall the hatred and animosity towards Wall Street, and if underwriters grossly over inflated Facebook's IPO then why should investors expect anything different next time? Although many analysts expect the IPO market for technology companies to recover in the second half of 2012, this excludes tech companies associated with social networks [18]. That ship has sailed, possibly for good.

Some pundits entirely dispense with frugality and explicitly label Facebook as a 'global economy killer', akin to the 2008 Sub-prime Crisis or current Euro-crisis. Paul B. Farrell, economist and columnist at CBS Marketwatch, believes that Facebook could potentially be a 'black swan' event, capable in bringing down the global economy. Farrell does not paint a clear path as to how such an event would unfold, [22] however it is not difficult to spot the tangible economic consequences of the Facebook IPO. For example, the state of California needs to 're-amend' its budget projections to take into account losses in hundreds of millions of dollars in capital gains tax as a result of Facebook's continued share price drop-off. [23]

> Facebook IPO creates 'Facebook Freeze' in US IPO Market

Many shades of grey

The Facebook IPO may not be the fearful global economic killer Farrell predicts but it is certainly damaging. It is a highly unnecessary psychological and economic setback, in a point in our global economic lifecycle where the margin of error for setbacks is quite low. Recognizing this simple fact is far more important than debating success or distributing blame, because it is the identification of past mistakes that helps ensure the bridge ahead is more stable than the one crossed.

Facebook has been trading publicly for less than three months. There are many who strongly affirm that Facebook's anguishes and subsequent market impression is short-term in nature, and that the company will avoid the same fate from the likes of Bebo or MySpace. [26] "Stocks can be mispriced for long periods of time […] until the market sees the value," is the official line on Facebook by Topeka Capital

TOP One of the biggest names in technology today.

analyst Victor Anthony. [27] "They [FB] have to balance growth with user experience, which is why you may not see growth quarter to quarter," explains Sterne Agee analyst Arvind Bhatia. [28]

The market also believes there is a protagonist in this story of lacklustre social media performance: LinkedIn. Investor sentiment is so positive towards LinkedIn that many dub it 'the anti-Facebook.'[30] LinkedIn, however, is not the poster-child for social media companies; as a result it is incapable in exerting the same breadth of psychological and behavioural influence as Facebook. Although the smaller-in-size LinkedIn is increasingly being used to demonstrate the 'right' approach in managing a successful social media enterprise, no one really knows the fate of LinkedIn either. Straddled with an exceptionally high share price relative to earnings, LinkedIn is under unparalleled expectations to deliver extremely high growth, miles above Facebook.

It is difficult to ignore that recent fetching valuations in the technology sector, especially in social media, are reminiscent of the Dot-com bubble era. Pundits cannot forget Facebook's bold $1 billion acquisition of revenue absent Instagram [31], the fact that companies like Zynga and Groupon debuted on the market before they were even profitable, the trailing social media start-up rush, or even the audacious valuation multiples of LinkedIn. Those who believe a social media bubble existed also believe Facebook's IPO travelled a great distance in effectively pricing this bubble, providing current and would-be investors with a much-warranted reality check; 'a blessing in disguise' so to speak. As Singular Research analyst Robert Maltbie explains, "After Facebook, investors will be gun-shy about dealing with these stocks. People will think of the business model, not the buzz." [32]

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CAPITAL MAGAZINE

Facebook IPO

The worst performing IPO of the decade? by Vijay Krishna

Facebook held its IPO on May 18th 2012 amid great expectations from both investors and the general public. It made a record $16 billion in its first day and, with a peak capitalization of $104 billion, was one of the biggest IPOs in technology to date. Yet it has suffered from problems from day one. Having had an initial market price of $38.00, four weeks later it was trading at a mere $30.01. There were several critical factors which contributed to the IPO underperforming so drastically:

Initial Pricing problems

The IPO had problems even before its first day. Criticism was levelled at Morgan Stanley, the leading underwriter, by some saying that they had purposely set the initial price of the shares ($38.00) too high.

Initial price of the shares was to be in the $28 to $35 range but, following the roadshow, (where demand for Facebook shares was more than five times the shares available for institutional investors at that time) this was later raised from $34 to $38. Facebook also announced, two days before the IPO, that it was increasing the number of shares by nearly 84 million, or 25%, for an offering of more than 421 million shares. Only 3.4% of all US listed IPO deals since 1995 have increased both the number of shares and the price range of their IPOs before pricing.

Morgan Stanley also allocated 26% of the IPO shares to individual investors, more than the typical 15%. Claims were made that they had increased the number of shares offered and the price range despite misgivings expressed by an executive from Goldman Sachs and many others involved in the deal.

Infrastructure issues on the NASDAQ

Before Facebook began trading, the NASDAQ stock exchange had assured the market that its systems were ready to handle the massive volume of trades, citing that numerous tests had been held to ensure nothing would go wrong.

Yet trading, which was set to begin at 11:00am EST on Friday, May 18th 2012, was delayed by half an hour due to technical problems. Even after trading began, problems still persisted. Some investors, who had originally placed an order, tried to cancel it when trading was delayed, but found their order status displayed as "Pending" - making it uncertain if they had managed to cancel in time.

Traders had to wait more than two hours after Facebook shares started trading at 11:30 am to hear whether their orders had been cancelled or not. This uncertainty is said to have discouraged many investors and institutions from buying the stock; they could not be certain whether they had actually brought it nor what price the order would be.

Ultimately, NASDAQ later offered $40 million to investment firms plagued by computer glitches. While considerably higher than the

stocks closing at $27.72, having lost nearly a quarter of the original value. At the end of the third week it was trading at an even lower value of $27.10. At its lowest, on June 5th, it was trading at just $25.87.

Prices saw a steady increase over the next few weeks with the share reaching a price of $33.10 on June 26th. However, on Thursday 26th July, Facebook released its first quarterly report as a public company, reporting a Q2 loss of $157 million. Unhappy, investors started selling their holdings, causing the stock to drop by more than 16% before recovering slightly to end the day at $23.71. The shares continued falling for the next week hitting a new low of $19.84 on 2nd August when Facebook admitted, in a filing to the U.S. Securities and Exchange Commission (SEC), that as many as 83 million of accounts were fake with 5% of users having multiple accounts. At the time of writing, Wednesday 15th August, Facebook shares are hovering around $20 per share.

IPO had problems even before its first day

usual $3 million limit on reimbursements, it is unlikely to account for large investor losses. Additionally, the rival New York Stock Exchange lampooned the move as setting a "harmful precedent." NASDAQ claimed to have fixed the problems and hired IBM for a technical review.

The fallout

In the ensuing days that followed the IPO, Facebook's shares started falling. On May 21, the next trading day after the IPO, the stock closed at a price of $34.03 (a drop of 10%). The following day it fell further, closing at $31.00. By the end of its first week of trading, Facebook's shares were at $31.91. The second week brought further trouble for Facebook with

Impact on the markets

Other technology companies also suffered due to Facebook with entire exchanges seeing a drop in share prices. Investment firms faced considerable losses with UBS alone having lost as much as $350 million. Facebook itself suffered heavily with both investors and employees losing out. More generally, the disappointing IPO was said to have lowered interest in the stock - proving to be quite harmful if in the future Facebook needs to raise capital. There were also claims that future offerings, especially technological IPOs, could suffer as a result. At least one company, an online travel company called Kayak, delayed its roadshow in the wake of Facebook's troubles.

Legal troubles

Reports have been released asserting that Morgan Stanley, JP Morgan, and Goldman Sachs all cut their earnings forecasts for the company in the middle of the IPO roadshow. There have been allegations that an underwriter selectively revealed these adjusted earnings

Allegations that an underwriter revealed adjusted earnings estimate to preferred clients

estimates to preferred clients whilst keep it hidden from the general public. As a result, both the underwriters and Facebook's CEO and board are facing litigation charges.

Facebook's IPO is now under investigation after SEC Chairman Mary Schapiro and Financial Industry Regulatory Authority (FINRA) Chairman Rick Ketchum called for a review of the circumstances surrounding the troubled IPO. On 22nd May, regulators from FINRA announced that they had begun to investigate whether banks underwriting Facebook had improperly shared information only with select clients, rather than the general public.

Additionally, class-action lawsuits are being prepared due to the trading glitches which led to botched orders. The premise being that these glitches prevented a number of investors from selling the stock on the first day of trading while the stock price was falling - forcing them to incur even bigger losses than they would have when their trades finally went through. At least one of them is a class action suit claiming more than $2.5 billion in losses due to the IPO.

BOTTOM Facebook share price on 25 May 2012

Rate Cut Speculation

As recession and the Eurozone Crisis deepen by Thomas Herrington

Anticipation for a rate cut strengthened as the double dip recession intensified coupled with a Eurozone crisis which shows no sign of resolving itself. Provisional GDP figures provided by the Office for National Statistics (ONS) show the economy shrank by 0.7% in the second quarter of 2012, with manufacturing surveys faring no better. In its quarterly inflation report, the Bank of England's most probable outcome was for economic growth to lie flat for the year, revised down from 2% predicted a year ago and 2013 growth revised from 2.3% to 1.7% (fan chart below). These forecasts assume ultra-low base rates of 0.5% or below are maintained until 2015.

Why is a rate cut significant?

The official bank rate is the rate the Bank of England charges for securing overnight lending and may be adjusted to control the economy and achieve the Bank's inflation mandate of 2%. It is the benchmark commercial banks use when determining interest on a loan or interest paid on a deposit. For example, the standard variable rate charged by mortgage lenders usually follows any change in the base rate. It is hoped a rate lowering to 0.25%, the Bank's lowest in its 318 year history, will provide an incentive for consumers and businesses to tap money markets, increasing liquidity and thereby improving the health of the economy.

With recent figures showing an economic slowdown, many expect an emergency rate cut although at this present the bank is playing down this rumour. August's Monetary Policy Committee meeting was non-eventful with rates held at 0.5% for the 41st consecutive month and quantitative easing (QE) held at the £375 billion target. Since 2008, the nine-member committee lead by Mervyn King has embarked upon three rounds of QE in an attempt to boost the money supply. This unconventional monetary action involves the bank firing up its printing house and using the newly printed cash to buy government debt in the secondary market. As a result the companies selling this debt (usually large commercial banks and building societies) are expected to increase lending to businesses and consumers. Inflation, a main drawback of such action, has been difficult to contain; CPI inflation undershot the 2% target for only 12 months out of the last seven years. Long term inflation weakens consumer purchasing power - thereby reducing domestic demand, an extreme example being the hyperinflation observed in Zimbabwe. With inflationary figures finally dropping towards the bank's 2% mandate it could be construed as unwise for the bank to launch a further round.

Additionally, one month earlier the Bank outlined its Funding for Lending (FLS) scheme designed to increase lending to households and small businesses by rewarding lenders with cheap funds below market rates. Under this scheme, the Bank lends treasury bills to money lenders at a discount rate of 0.25% - who can use these securities as collateral for borrowing money from the central bank at an ultra-low rate. This initiative should reduce the pressure from rising bank funding costs (a consequence of high capital requirements and regulation) thereby benefiting domestic borrowers.

With QE slated to run until October, and the Funding for Lending initiative in place, it seems unlikely for a rate reduction while the impact of such measures are assessed. Out of the committee members Mervyn King remains particularly defiant on the benefits of such action, adding "Another quarter point cut on the bank rate is not going to be the difference between having a recovery and not having a recovery." There are also those who worry that such an action would actually decrease lending. They argue that although mortgages and other loans will be made cheaper, it may also lower the attraction for savers to hold deposits, which in return would lower the capital base for commercial banks. Namely commercial banks will no longer have the resources to lend.

Regardless, markets are pricing in a rate cut by January; Sterling Overnight Interbank Average Rate (SONIA) forwards, a proxy for base rate expectations, read 0.30 for January 2013 vs. 0.42 for September. This translates roughly to a 50% probability for a 0.25 rate cut.

The values also reflect continuing fears that time is running out for the Eurozone. Should Spanish 10 year bond yields rise above an eye watering 7%, the Spanish government may be cut off from debt markets and seek a full blown bailout, in addition to the 100 billion Euros already given to its domestic banks. In this situation contagion spreads with Italy likely to follow suit. This scenario would have far reaching consequences for the UK with the Bank of England almost certain to act in the form of a rate cut.

Unless plans for Eurozone fiscal integration are implemented then the UK slowdown looks set to continue. What can be certain is that rate cut or not, UK households look set for years of record low interest rates.

BOTTOM Bank of England.

CAPITAL MAGAZINE

RIGHT Bill Clinton. "The Glass-Steagall Act is no longer relevant."

The repeal of the Glass-Steagall Act

And its effect on the Financial Crisis

by Vijay Krishna

The Glass-Steagall Act (GSA), otherwise known as the Banking Act of 1933, was a law that imposed several reforms onto banks, the most well-known being the separation of commercial banks and securities firms into two separate entities, as well as establishing the Federal Deposit Insurance Corporation (FDIC), insuring bank deposits, and strengthening the Federal Reserve's control over credit.

The Act was repealed through the Gramm-Leach-Bliley Act in 1999 after 66 years. Many have stated that the repealing of the Act, and the subsequent activities that were then permitted to the banks were a major cause for the late 2008 financial crisis. In this article we will take a look at the history of the Act and how it came to be repealed.

Formation of the Glass-Steagall Act

The Glass-Steagall Act was established in 1933, in the period of the Great Depression, where the riding sentiment was that banks needed greater regulations to avoid future disasters such as the 1929 stock market crash. The Act was named after two people: Carter Glass and Henry Steagall. Senator Carter Glass was a former Treasury secretary and the founder of the United States Federal Reserve System. Henry Steagall was a member of the House of Representatives and chairman of the House Banking and Currency Committee. Senator Class was the primary force behind the Act with Steagall agreeing to support it after an amendment was added permitting bank deposit insurance.

The Act separated investment and commercial banking activities by banning commercial banks from underwriting securities, essentially forcing banks to choose between lending or underwriting. At the time the 1929 market crash was considered to be a result of commercial banks' being too speculative in the stock market. In hopes of making more profit, commercial banks took on too much risk with their depositors' money.

There was also a conflict of interest where investors suffered due to banks promoting stocks that benefitted themselves, rather than the investors. Unsound loans were issued to companies in which the bank had invested, and clients would be encouraged to invest in those same stocks. Several provisions of the Banking Act sought to restrict this speculation and the conflict of interest.

[In 1933] riding sentiment was that banks needed greater regulations to avoid future disasters such as the 1929 stock market crash.

Was the Act too restrictive?

Banks were given a year to decide whether they would specialize in commercial or in investment banking. Only 10% of commercial banks' total income could stem from securities; however, an exception allowed commercial banks to underwrite government-issued bonds. Financial giants at the time such as JP Morgan were seen as part of the problem and were forced to cut their services and, thus, one of their main sources of income. By creating this barrier, the GSA was trying to prevent the banks' use of deposits in the case of a failed underwriting job.

However, the GSA was considered too harsh by most in the financial community, with even Senator Glass himself trying to repeal the Act shortly after it was passed, claiming it to be an overreaction.

The limitations of the GSA on the banking sector sparked debate over how much restriction is healthy for the industry. Many argued that allowing banks to diversify in moderation offered the banking industry more potential to reduce risk. If so, the restrictions placed by the Banking Act would be making the banking industry riskier rather than safer. Furthermore, it was argued that following the crash of 1929, reputation had become more important in the markets and that could be enough to motivate banks to regulate themselves and be less speculative.

Easing the restrictiveness of the GSA

Although the act was repealed in 1999, the process that led up to it began in the 1960s, when banks successfully lobbied to get Congress to let them enter the municipal bond market. Then, in the 1970s, some brokerages begin encroaching on banking territory by offering money-market accounts that pay interest, allow check-writing and offering credit or debit cards.

A major change came in December 1986, when the Federal Reserve reinterpreted Section 20 of the Glass-Steagall Act, which bars commercial banks from being "engaged principally" in the securities business. They decided that as long as banks have 5% or less of their gross revenue coming from securities then they are not engaged "principally" in investment banking.

Later, in 1987, the Federal Reserve voted in favour of easing some of the regulations of the Glass-Steagall Act to allow banks to handle several underwriting businesses: these included commercial paper, municipal revenue bonds, and mortgage-backed securities. Thomas Theobald, then Vice Chairman of Citicorp, argued that there was no danger since three "outside checks" on corporate misbehaviour had emerged since 1933: "a very effective" SEC; knowledgeable investors and "very sophisticated" rating agencies. However, many including the then chairman of the Federal Reserve Paul Volcker were unconvinced. Volcker expressed his fear that lenders would once again recklessly lower loan standards in pursuit of lucrative securities offerings and market bad loans to the public. During the same year the Federal Reserve also indicated that it will be raising the pervious limit of 5% to 10% sometime in the future. The Board believed that this would increase competition between banks and lead to greater convenience and increased efficiency.

Although the act was repealed in 1999, the process that led up to it began in the 1960s


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In January 1989, the Fed Board again approved a change in the Act to further include dealing in debt and equity securities in addition to the securities already allowed. This marks a large expansion of the activities considered permissible under Section 20. This was also the year when the Board raised the limit of investing in securities to 10%.

Come December 1996, with the support of their new chairman Alan Greenspan, the Federal Reserve Board issued a decision permitting banks to hold up to 25 percent of their business in securities underwriting effectively making the Act obsolete.

President Clinton signed repealed bill into law on November 12th 1999, as Gramm-Leach-Bliley Financial Modernization Act of 1999 (GLBA)

In August 1997, the changes that the Federal Reserve purposed on "Section 20"in 1987 and 1989 came into effect. The Board stated that the risks of underwriting had proven to be manageable and said banks would have the right to acquire securities firms outright. That same year, Bankers Trust becomes the first U.S. bank to acquire a securities firm, buying the investment bank Alex. Brown & Co.

Repeal of the GSA

Within this same period several proposals were put forward to try and repeal GSA. Between 1984 and 1988, the Senate passed bills that would lift major restrictions under Glass-Steagall, but in each case was blocked by the House of Representatives. Then, in 1991, the Bush administration put forward a repeal proposal, winning support of both the House and Senate Banking Committees, but was again blocked by the House in a full vote. Later in 1995, the House and Senate Banking Committees both approved separate versions of legislation to get rid of Glass-Steagall, but negotiations to arrive on a compromise between the two fell apart.

The formation of Citigroup Inc., however, was the event that most directly led to the repeal of Glass-Steagall. On April 6, 1998, Sandy Weill (the chairman of Travelers insurance company) and John Reed (chairman of Citicorp) announced a $70 billion stock swap merging Travelers and Citicorp to create Citigroup Inc., the world's largest financial services company, in what was the biggest corporate merger in history.

The transaction would have to work around regulations in the Glass-Steagall and Bank Holding Company Act (which prohibited bank holding companies headquartered in one state from acquiring a bank in another), which were implemented precisely to prevent this type of company: a combination of insurance underwriting, securities underwriting, and commercial banking. To rectify this, following the merger announcement on April 6, 1998, Weill immediately started a lobbying campaign to repeal the Glass-Steagall Act. It proved successful and in May 1998 legislation was passed by the House allowing the merging of banks, securities firms and insurance companies into huge financial conglomerates.

Next year, through the October-November period, Congress finally repealed the Glass-Steagall Act after twelve attempts in 25 years, rewarding financial companies for more than 20 years and $300 million worth of lobbying efforts. President Clinton signed the repealed bill into law on November 12th 1999, as the Gramm-Leach-Bliley Financial Modernization Act of 1999 (GLBA).The GLBA repealed Sections 20 and 32 of the Glass–Steagall Act, removing barriers that prohibited any one institution from acting as a combination of an investment bank, a commercial bank and an insurance company. With the passage of the Gramm–Leach–Bliley Act, commercial banks, investment banks, securities firms, and insurance companies were allowed to consolidate.

Impact on the financial crisis

To function properly markets need a large number of independent traders. Previously, the separation between commercial and investment banking deprived investment banks of access to cheap funds, forcing them to limit their size. These limitations increased the number of boutique firms, making markets more liquid. With the repeal of Glass-Steagall, investment banks exploded in size and so did their market power. As a result, new financial instruments (such as credit default swaps) developed in an opaque over-the-counter market dominated by a few powerful banks, rather than in a well regulated and transparent public market.

As a result [of the repeal of Glass-Steagall] new financial instruments developed

Commercial banks also played a crucial role as buyers and sellers of mortgage-backed securities, credit-default swaps and other explosive financial derivatives in lead-up to the crisis. Without the repeal of Glass-Steagall, the banks would have been barred from most of these activities with the result, it could be argued, that the field of derivatives would have been far smaller. Then, even if these derivatives were to fail, their effect would not have been nearly as devastating.

On the other hand, a lot of the banks that were at the forefront of the crisis (such as Bear Stearns, Lehman Brothers, Washington Mutual, Countrywide) were either pure investment banks or pure commercial banks. In the aftermath to the crisis, mergers and acquisitions between the different types of banks was proven crucial: if GSA was still in effect then the acquisition of Bear Stearns by JP Morgan and of Merrill Lynch by Bank of America would not have been possible. Commentators, including the American Bankers Association in January 2010, have argued that the ability of commercial banking firms to acquire securities firms (and of securities firms to convert into bank holding companies) helped mitigate the financial crisis.

More generally however, the separation between investment and commercial banking helps make the financial system more resilient. After the 1987 stock market crash for example, the economy was fared far better because commercial banks were largely unaffected by the plummeting equity prices. During the 1990-91 banking crisis, securities markets helped alleviate the credit crunch because they were similarly unaffected by the crisis.

Finally, Glass-Steagall Act helped restrain the political power of banks. Previously, commercial banks, investment banks and insurance companies had different agendas, so their lobbying efforts tended to offset one another. But after the repeal, the interests of all the major institutions aligned, giving the financial industry disproportionate amounts of power in politics.

LEFT In the night. Shenzhen, China.

China: On the road for real estate

Last thirty years by Christine Siting Kan

The rise of real estate

Over the past three decades, a series of integrated economic initiatives have been introduced and implemented in China. The country has for multiple times exemplified its ability to change, often in an unprecedented manner. Its annual growth rate surges roughly at an average 10% is only the latest manifestation, in a form of idiosyncratic behaviours across its geographic and industrial spectrum.

The present has been a difficult circumstance for China. Given the weak confidence contagious from European sovereignty crisis, worldwide demand for manufacturing exports is mild and further stagnated by dwindled trade momentum and appreciated Yuan. Stimulus packages are required to encourage money circulation and domestic demand. Nonetheless, critics have continued to mount for the possible overinflated policies and 'hard landing', thus induces greater social imbalances.

Likewise to other emerging nations, China has had a plethora of fixing State-owned Enterprises (SOEs). Often such corporations are in strategic industries and operate dually under larger market incentives and governmental supervision. While the model has raised concerns in marginalized profitability, surreptitious arrangements and low flexibility, it nevertheless sustained the mainstream economy, also contributed to a smaller number of people living below the poverty line.

While the Chinese rise is underway, Real Estate has long been the dominance. The statistical evidence gives that real estate investment accounts for 13% of the GDP in 2011.

Aside from the intimate collaboration that real estate market has with more than forty domestic industries from mining to restaurant groups, neither should its international influence be underestimated, which has been especially preeminent in commodity trades such as ore core. For global institutions such as Rio Tinto (Australia NYSE:RIO), their strategic targets to gain charters and to establish regional headquarters in major cities (most likely Shanghai) exemplify the general growth anticipations from overseas investors.

With its distinguishable Communist nature, a significant proportion of the property industry has been taken by organizations with strong political affiliations. More precisely, two out of the top 5 developers (Vanke, Poly, Shanghai Greenland, Evergrande and China Overseas), Poly and China Overseas, although public listed and traded, are effectively state owned.

housing requirement from around 13 million people needs to be satisfied. Data from 2012 white paper forecasts that urbanization will rise 7-8% to 55% by 2020, an equivalent housing for 100 million new people. This would be equivalent to create 2 billion square meters if an average 20 square metre per person is assumed.

Domestic as well as overseas controversies have grown for the inflated prices, for the tactics and counter tactics of marketing strategies, and for the much more extravagant wealth divide. Public sentiments are delicate in an industry where all consequences create incredibly high stakes for all civil population involved. Meanwhile, a small cluster of high net-worth individuals who gained their superiority through property reserves, their extreme behaviours from conspicuous philanthropy to sumptuous lifestyles have fuelled massive

Real estate investment accounts for 13% of [China's] GDP in 2011

Historical House Prices

During twenty years of its epic growth 1990-2010, another period of significance came in first millennium decade. Consequently in each of major coastal cities, retail residential prices were resulted in several folds increase, yet the overall upward trend still stays and spreads towards greater inlands. The demand could be largely accounted as a rigid requirement from the rising middle class, who is anxious to improve living conditions. It is estimated that for every 1% of urbanization, the additional

resistance to inequality. The hostility of private consumers towards wealthy market tycoons has become dangerously toxic and created suspicion and hatred that perpetuates the cycle of hassles.

The impact of the government

The intensity of governmental interference has hardly diluted in any period of its growth. Housing policies have been particularly capricious. Since 2010 in most major cities which were experiencing mass investments in high-end real estate, high demand as well as

BOTTOM City housing in China.

skyrocketed prices, it introduced draconian restrictions on housing purchases, including imposed higher tax on multi-mortgages and a flat ban on households from buying a second apartment. The government is cautious that lifting current restrictions could lead to a resurgent bubbly property market, destabilizing and exacerbating social tensions in the authoritarian state.

In face of a global meltdown triggered by US sub-prime market, China abandoned conventional monetary instruments and announced a four-trillion Yuan fiscal stimulus package with some complementary tax-cuts. The authority has once again demonstrated the phenomenal stance to the sovereignty and market functioning. Moreover, as its economy is largely dependent on heavy, strategic yet tightly state related industries, the implementation to substantiate such funding is considerably lower than more privatised nations. Most of the budget was financed by granted loans from state-owned banks and later distributed explicitly to major state corporations in energy, infrastructure and networking sectors.

Nonetheless, soon after 2009, the Chinese government has actively engaged in deflating what had likely become a bubble without battering the economy. The campaign was aimed primarily at the high end real estate market by imposing more scrutinize on speculations and opportunistic investments. After quota type regulations were launched in major cities, the government later raised up initial payments for second homes to 60%—twice as high as for first homes—among other measures.

To prevent fretful contagion from shrinking commercial sale, China takes a dovish counterapproach to encourage a large scale public housing program in suburban areas. Among which the transformation of incumbent villages into residential properties was paid the most attention. Broadly, the move appears to have put a floor under the real estate market, also securing a greater extent of urgent housing necessity especially to the lower income class.

Nonetheless, the approach appears with less commercial incentives to local authorities. Hefty tax bills, land sale prices, license payments from property market are undoubtedly the determinate source of financing to public spending, efficiently and effectively.

Unlike intense activities in residential property, commercial real estate is still in an early stage of market integration. Wanda Group is the first and only company 'Made in China' with a nationwide footprint and operates as a conglomerate entity in a combination of shopping malls, cinemas, groceries, karaoke and starred hotels. The prematurity of Chinese own commercial developers will inevitably result in greater involvement from international counterparties in this particular field.

Tough structural reforms need to be executed

Beijing has been wary of easing property restrictions too much. The government has allowed, on a city basis, some breaks for first-time buyers. The cities of Chongqing, Wuhan and Zhengzhou, for instance, have allowed first-home buyers to borrow more from government-sponsored savings funds. Banks are also permitted to discount mortgage rates up to 30% for first-time buyers.

On the path to prosperity ?

In retrospect, twenty years of development and ten years of rapid growth in housing market give China an unanticipated prosperity. Nonetheless, excessive capital flows and under scrutinized reconstruction and expansion projects also leave the country with a serious of structural cracks.

Likewise to other industries in China, property market was not a process of theory to practice. Its unique high resilience to price increases draws largely from a rooted mentality on property ownership among the general public, also the fear of land scarcity in urban areas. Although the vast vacancy of 200 million square metres is present, a much higher rate of Chinese banks liquidity reserve (21.5%) gives a less trapped profile on the state of the economy. Stress-tests on Chinese finance sector which operates with much smaller volume of equity and debt securities also partially ease the tension. It's estimated that banking institutions release $100 billion of capital for every 0.5% drop in base rate.

In order to direct the Chinese housing market away from the likelihood of a bubble burst, it's widely acknowledged that urgent and tough structural reforms need to be executed in its land economy. Chinese politics forms a firm connection between national stability surveillance and monetary policy to better regulate behaviours from both developers and the civil population. However, it's also potentially dangerous for the central government to over exploit its authority to command without impartial considerations to the market flexibility. Over frequent changes in base borrowing/lending rates would create reluctance to response, therefore lose its credibility.

The current situation in real estate market goes beyond the economics. It's a system of values. The country and its people need to prepare to go through a serious process to attain an integrated, open and prosperous housing market which sustains the health of its economy.

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Nomura

The Imperial Alumni perspective

We asked some Imperial alumni about their experiences of joining Nomura:

"As I am on the Corporate Graduate programme, I have had the opportunity of rotating within two teams in Operations Control. It has been a steep learning curve but these roles have significantly widened my exposure and vastly improved understanding of the business. With continuous training support offered, both product and soft skills based, I am enjoying my role so far, definitely hard work involved, but truly worthwhile"
Stephanie, MEng Chemical Engineering 2010 & Nomura Operations Analyst

"Working at Nomura has been a challenging but very rewarding experience for me so far. Being from a non-finance academic background, this has been a great opportunity for me to gain some in-depth knowledge about the industry and also gain a better understanding of what areas my skill set is best suited for. I am thoroughly enjoying my time at Nomura and am looking forward to gaining more experience and progressing at an even faster pace with my career over the next few years."
Ifi, BSc Biology and Management 2011 & Nomura Global Markets Analyst

And what do they think differentiates Nomura from other banks on the street?

"I feel one of the things that distinguishes Nomura from its competitors is the people – I have had many opportunities to interact with a broad range of individuals within the bank and from other firms and have always found the people at Nomura to be warm, friendly and approachable. From the interview stage, right up to my joining the firm as a full-time graduate, I was made to feel very relaxed and comfortable interacting with Managing Directors and other senior colleagues, which helped to build my confidence."
Ifi

"Being part of a Nomura's growing business is quite unique and rare to the industry. It provides several opportunities to play a part to its growth, contribute to significant projects and take on more responsibility quite early on in your career."
Stephanie

Finally, what one piece of career advice would they give to freshers?

"If you want to work in investment banking do a summer internship or placement to see if its right for you and for the best chances of securing a position on the graduate scheme at that bank."
Atif, MEng Computing 2010 & Nomura Technology Analyst

"My main piece of advice to freshers would be that it is never too early to start thinking about the future, career-wise. One of the main reasons I was able to seize the opportunity to intern and, eventually, work full-time at Nomura was thanks to making a decision on what I wanted to do rather early on, allowing me ample time to research the industry, attend relevant recruitment events and then apply for internships and jobs."
Ifi

NOMURA

Asia's Global Investment Bank

Built for people with ambition

Women's Immersion Program, 2nd April - 12th April 2013

During our two week insight program, you will have a unique opportunity to experience what it is really like to work on the desk in a fast-paced environment. You will learn new skills, build lasting relationships and find out more about what makes Nomura unique.

Program highlights:

- Two-week paid internship in one of our divisions:
  - Investment Banking
  - Global Markets
  - Corporate Infrastructure
- On-the-job training
- Business presentation overviews
- Networking events
- Career advice and guidance

Who should apply?

We are seeking first year students (or second year students in a four-year course), graduating in 2015 who have a strong academic background with a track record of initiative, leadership and teamwork.

Explore Nomura Program 8th April – 10th April 2013

This is a unique opportunity to find out more about the different career paths within investment banking and the skills necessary for success. You will be exposed to three business areas and learn about how they operate on a global scale: Investment Banking, Global Markets and Corporate Infrastructure.

Program highlights:

- Business presentation overviews, Networking events, Panel discussions, Career advice and guidance

Who should apply?

We are seeking first year students (or second year students in a four-year course), graduating in 2015 who have a strong academic background with a track record of initiative, leadership and teamwork.

Deadline date for Explore and Women's Immersion: 13 January 2013

Don't miss the opportunity to start building your future at

www.nomura.com/careers

Building on ambition

CAPITAL MAGAZINE

Buy-side vs Sell-side

Which role is right for you? by Inside Buzz

The world of investment banking is full of jargon, unique words, and exclusive phrases, and you HAVE to become fluent in this special language if this is a world you're looking to inhabit. Two of these essential I-banking phrases you need to know are "buy-side" and "sell-side", and the difference between the two.

The buy-side is made up of the clients of the investment bank; they could be individuals, private companies, pension funds, proprietary trading desks (prop desks), hedge funds, or mutual funds. They are the ones buying the securities, hoping for high returns on their investments, and that's why they are called the buy-side.

The sell-side is the investment bank itself. The investment bank is the one selling the securities, so it's easy to remember that they are the sell-side. People on the sell-side direct their clients to securities which they think are in the clients' best interest, and which can generate a profit for themselves too.

LEFT Need to manage risk well as a trader

The Buy-Side

Analysts

This is how a lot of people start off in the investment management world. Analysts will usually be given a sector, region, or even a specific company to research, gather information on, and run investment models about. It can mean analysing something as broad as fixed income or something as specific as the Argentine real estate market.

Portfolio Managers

These are the people who actually invest the clients' money and make the decisions on what will be bought on their behalf. They can encompass the actual traders on the desk or the people who simply come up with the strategies. They also do a bit of client account management, making sure the clients are kept up-to-date on their portfolios.

Investor Relations

The IR department does any PR for the firm, seeks out potential new investors, and keeps current investors in the know about what you're doing with their money. It can be a varied role, with tasks ranging from event organisation to report preparation to damage control (hopefully not on a regular basis!).

Operations

These are the unsung heroes of the firm. They are the technical people who are good with numbers and can spot that mistake in the trade order that no one else did. Operations, or back office roles, can range from IT positions to risk analysts to the people who make sure the trades are settled correctly and on time.

The Sell-Side

Researcher

Again, you would be tasked with researching a specific sector, product, or location and would be expected to know everything about that topic and supply reports to more senior analysts with recommendations.

Traders

During the training program, it will become clear who will make a good trader and who will not. If you're good with numbers and can manage risk well, then you may start out as a junior on the trading desk, moving up depending on how much money you make. There are traders in all departments of an investment bank trading foreign exchange, gold, or bonds, just to name a few.

Salespeople

You also have to be good with numbers to be a successful salesperson, but you really have to be a people person with great problem solving skills. As a salesperson it's your responsibility to sell unique products to your clients that will make them money and also suggest exciting, creative trades with lots of upside that no one else has thought of yet – not a role for the shrinking violet! Targets for sell-side salespeople can sometimes be very stressful, but generally the bank won't fix you an unattainable target.

inside buzz

This is an excerpt from Inside Buzz's guide: An Inside Look at Investment Banking.
For a free copy of the guide please visit: www.insidebuzz.co.uk/download

Investment Banking explained

by Inside Buzz

JP Morgan, Credit Suisse, Goldman Sachs, RBA, Barclay's. No doubt you are familiar with those staples of the investment banking landscape if you are at all interested in the world of finance. You may be thinking that a career in investment banking would be the ideal move for you. But do you know what investment banks actually do? It's not a straightforward thing to explain, but let's start by stating that it's not investing, nor banking. Investment banking is really the raising of capital (money companies need to help their business grow) on behalf of clients by buying and selling securities (something that represents a monetary value, such as a stock or bond). They are not like retail or commercial banks because they do not take deposits from individuals.

Investment banking is really the raising of capital on behalf of clients by buying and selling securities

Companies that have turned into the investment banks we know today began by offering services called merchant banking. Sometimes this name is still used, but today people are more likely to call it corporate finance. These are services investment banks offer to helps companies raise capital so that they can improve their business. This can mean advising a company on buying another company, orchestrating an IPO or brokering a merger between two companies. In an investment bank today, the sales and trading of other instruments such as bonds, foreign exchange and commodities are lumped in with corporate finance under the umbrella of investment banking, though traditionalists would consider them slightly separate. But because banks have a commercial branch and an investment banking branch, sales and trading sit in the investment banking side and have started to become grouped together with the merchant banking activities.

The main difference between an investment bank and a commercial bank is that a commercial bank takes deposits. They have nothing to do with, for example, bond or stock markets like investment banks do and the deposits are the way that they raise funds. Think of a commercial bank as a kind of broker, providing loans and different types of accounts for individuals and companies. An investment bank plays with longer investments to try to make money.

In the structure of a typical investment bank, you'll find the roles are broken down into three categories, or places within the bank: the front office, middle office, and back office. The front office is really the face of the bank, they are the ones that have the most interaction with clients and actually perform the transactions. The middle office watches over the front office, making sure that they are not taking too much risk with the bank's capital and that all regulatory rules and compliance procedures are followed. The middle office also includes HR and some other support roles. The back office handles the tasks of making sure the numbers are correct on all trades, as well as IT and assistant duties. In these pages we'll break down this large industry to help you better understand how it all fits together, what the different divisions actually do, what daily life is like should you become an investment banker and how to ace your interview.

But do you know what a derivative is? Or what a spot price means? Or how you go about valuing a company? If any of those questions intrigues you, then you are ready to delve into the wild world of investment banking.

inside buzz

See more at
www.insidebuzz.co.uk

BOTTOM The banking district of London. Canary Wharf, London.

Company profiles

by Inside Buzz

Bank of America Merrill Lynch

One-liner
In September 2008, Bank of America made just about every headline in the world, announcing that it would buy the investment bank Merrill Lynch. This made BofA the biggest US bank in terms of assets, the largest of the leading investment banking advisory firms, and one of the world's top wealth management firms.

Pros
- Generous compensation
- High-level client projects
- Friendly, smart team members
- Solid growth opportunity, ability to transfer to different areas
- Big plans for growth in Europe
- Top class facilities

Intro to Buzz on Getting Hired
If you want a graduate or summer position with Bank of America Merrill Lynch, you must come armed with no less than a 2:1. Provided you spent more time checking out your textbooks rather than the local pubs near your campus, you can apply to any of the firm's European locations – the most common are London, Frankfurt, Milan and Paris. Entry level applicants can choose from investment banking, capital markets, sales and trading, product services, technology, risk management and global middle office.

TOP Bank of America Office. Canary Wharf, London.

Deutsche Bank

One-liner
Frankfurt headquartered Deutsche Bank is the largest bank in Germany and one of the true giants of the financial world. This Teutonic behemoth employs more than 100,000 people throughout Europe, Asia and the Americas and concentrates its efforts on two core business areas: corporate and investment bank (CIB), and private clients and asset management (PCAM).

Pros
- Solid training and self-development with plenty of responsibility from the start
- Good benefits scheme
- Opportunity to grow and move into new departments and areas
- Dynamic atmosphere, with good access to management
- Very strong name, especially in FX and fixed income

Intro to Buzz on Getting Hired
Deutsche Bank consistently seeks the cream of the academic crop – high grades from top universities and a range of extracurricular interests are prerequisites for any candidate interested in joining the DB ranks. However, what this bank really wants to see is real career motivation and enthusiasm for the firm. Drive, a strong work ethic, and a global mindset are must-haves when applying to Deutsche Bank, so if you're up for a challenge, get ready for a tough recruitment process.

RIGHT Credit Suisse offices. Canary Wharf, London.

Ernst and Young

One-liner
Accounting is sometimes referred to as the second-oldest profession, and Ernst & Young is one of its oldest practitioners. Part of the Big Four, Ernst & Young LLP is the UK member firm of Ernst & Young Global. Headquartered in London, it employs over 140,000 across 700 offices – providing auditing and accounting services in 140 countries.

Pros
- Solid international reputation and a strong launchpad into other corporate finance roles
- Flexible working hours
- Even ratio of men and women
- Relaxed, liberal atmosphere
- Colleagues are friendly and helpful
- Brand new open plan offices on South bank and a really good canteen with a deli bar

Intro to Buzz on Getting Hired
The motto at Ernst & Young (EY) is "Quality in Everything We Do" and when applying you will quickly find that it is precisely "quality" the firm looks for in its candidates. Aside from the standard 300 UCAS points, As and/or Bs in Maths and English at GCSE, and a minimum 2:1 in any discipline, you'll also need drive, talent and commitment as EY's lengthy application process is designed to weed out the diamonds from the rough.

Credit Suisse

One-liner
Operating 405 offices in 55 countries and employing over 50,000 people, this big Swiss cheese boasts the impressive ranking of Switzerland's second-largest bank by revenue. A prestigious "bulge bracket" investment bank, Credit Suisse offers investment banking, private banking and asset management services to clients worldwide.

Pros
- One of the best firms for training and support
- Compensation is above the norm
- Thumbs up for diversity and a solid track record of promoting women
- Lots of perks and excellent on-site facilities

Intro to Buzz on Getting Hired
Have you got the grades? Think of yourself as a natural leader? Do you thrive in result-driven environments? Do you possess an analytical mind? Think you've got what it takes to make it in investment banking? While all of this may be a good start, ability alone is often not enough to impress the big Swiss cheese. Credit Suisse hires very carefully to ensure personality and expertise fit in with its target-driven firm culture. Entry-level positions are highly sought after and the firm scouts worldwide, offering graduate and internship positions for those eager to embark on a career in this competitive industry.

inside buzz

See more at
www.insidebuzz.co.uk

Application Deadlines 2012 - 2013

	Spring Insight	Summer Internship
Bank of America Merrill Lynch	23/01/13	13/12/12
Credit Suisse	02/01/13	16/12/12
Deutsche Bank	18/01/13	14/12/12
Ernst & Young Quality In Everything We Do	See ICFS website for details	
Barclays	31/01/13	See ICFS Website
BlackRock	See ICFS website for details	
citi	04/01/13	28/12/12
Morgan Stanley	12/12/12	04/12/12
RBS The Royal Bank of Scotland	31/01/13	31/01/13
J.P.Morgan	16/12/12	25/11/12
Nomura	13/01/13	06/01/13
UBS	13/01/13	30/12/12

EEE & Computing Students: 6 month industrial placements in technology – see the ICFS website for details or contact giridhar.kesavan10@imperial.ac.uk

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