

# CAPITAL

The Imperial College Finance Society Magazine

## WILL YUAN APPRECIATE?



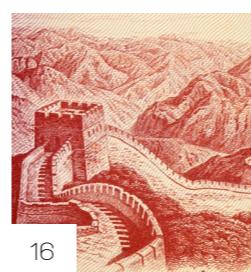
The uniqueness of the Japanese Yen

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INSIDE BUZZ - Interview questions you should be prepared for



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# President's welcome

Dear Members,

A warm welcome to our Spring issue of Capital Magazine – a new Asia-themed publication which also contains our year in review for 2012-2013 ! Along with the support of our sponsors, Imperial College Union, Imperial College Business School and of course our 3000+ members, the ICFS has had an incredible year and we are thrilled with the great feedback we've had from across the industry on a national and international scale.

When we were planning our activities for the year we knew that above all, we truly wanted to create a more informal, relaxed and fun society and it was great to see that our members identified perfectly with this new society ethos. Indeed, it's made my role far more interesting (and challenging) that I could ever have expected! I've truly enjoyed the creative freedom with Facebook banners and YouTube videos – and thanks to everyone for the positive feedback on all these new marketing initiatives.

At the time of writing, we've run around 50 events and 2 conferences, a mini finance course and we're of course looking forward to our 2 international trips – Hong Kong and Kenya ! This has been coupled by a huge surge in membership and thriving social media accounts. A personal thanks to all of our members who have supported the society by attending our events and taking advantage of the opportunities!

Of course, a critical factor in our success has been my spectacular committee – who have performed far above and beyond all expectations – it's really been the dream team for me this year.

Thomas, thank you for transforming the way we look at analytics and for building a truly next generation sign-up platform for the society. It's been a critical part in streamlining our mailing list operation and it's provided the next committee with a solid platform upon which to build on.

Tia, thank you for handling all ICFS transactions swiftly and efficiently. We've had almost 200 transactions this year and thanks for keeping on top of everything – and making sure we are compliant with VAT rules in the process! Strict financial control has been a major strength this year and you've set the benchmark for how to handle the record budget of the society this year whilst keeping the union closely informed.

Avtar, you did it ! Thanks for all the logistical planning and organisation of all the events on and off campus throughout the year. It's hardly been straightforward with the introduction of specific, tailored events per sponsor – but all events have been met with exceptional feedback. Thank you for leading a highly pro-active and determined event officers team who have truly redefined the way an event is run.

Mario, Capital Magazine in the Autumn was a tremendous success and thanks for your hard work over the summer in putting it together. Despite numerous deadlines and a high workload – I'm delighted that we've managed to do two issues of our flagship publication this year so thank you for truly taking CapMag to a new level.

Tracy and Christine, thank you both for always being ready to lend a helping hand towards the society and of course for the quick and efficient organisation of the Annual Dinner for this year. Thanks for helping out in our Market Insights videos and for handling member requests and queries swiftly.

You've certainly eased my own workload – many thanks !

Thanks to our committee and our dedicated members, we've been able to truly transform the ICFS this year – leading to ESSA Accreditation as an enterprising society. We've also been thrilled with being named as one of the top 3 student societies in the whole of the UK by Rate My Placement (by the time you read this, we'll know the final result!).

None of the above could have been achieved without the unwavering dedication, commitment and effort shown by Deepka over the last year. From our marathon meetings over the summer, over 6000 emails/texts and endless discussions and organisation, you've truly defined the society over the past year. Hard to believe that 12 months ago I barely knew you! I could not have asked for a more calm, hard-working, kind, loyal, efficient and trustworthy friend to help me achieve my vision this year. You've been a dream Vice President and I'll always be eternally grateful for your help in making this an unforgettable year in ICFS !

So I guess this is it ! I hope all our members and committee enjoy reading this new Spring Issue of Capital Magazine and enjoy looking back on an action packed year. This year will truly define my time at Imperial and I'm incredibly lucky to have shared it with a fantastic member base and what has been the most amazing team of friends I've ever worked with. Thank you to you all and I wish you well for your remaining time at Imperial and your future careers.

**Giri Kesavan**  
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President of Imperial College Finance Society  
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# Manifesto review

With a record number of events and activities this year, the ICFS has truly cemented its place as not only the leading careers related society at Imperial – but on a national scale. I promised a lot in my election manifesto last March and it certainly was a significant challenge to top the great platform set by the previous committee. However, thanks to our great team, we truly believe we have exceeded all expectations and have set the foundations for a fantastic 2013-14. I've just listed here some of our key achievements this year – it's beyond the scope of the review to list every tailored event – but I've included the main ones! I'd of course value your own thoughts on how you feel we've done – please feel free to just send me an email with your feedback and comments.

This review doesn't include the New Financial Worlds Conference or the Imperial College Investment Club – both of which ran as total subsidiaries under ICFS and as such, have had their own committees this year.

## Finance Industrial Placements in the Department of Electrical Engineering

The EEE department introduced a six-month industrial placement scheme that enabled students to gain a longer term of work experience as part of their degree. We realised that in order for students to have diverse opportunities, it would be fantastic if students could undertake these industrial placements at investment banks. Over the summer, we drafted a 20-page proposal document to the EEE department, outlining the transferable skills that engineers would gain by working at investment banks and how these could be applicable to an EEE degree. The department accepted our proposal and the role profiles and as a result, EEE students are now able to do a range of placements in Investment Banks (naturally mostly in Technology although non-technical roles are allowed) across the city – directly creating and giving students opportunities at no cost.

## Record number of sponsors and level of sponsorship

With a targeted approach to sponsorship over the summer and a clear strategy for each firm, we were able to generate record levels of sponsorship for the ICFS. This was due to a change in tactic – we went out to sponsors directly and pit-

ched rather than relying on outline proposals (which we also wrote). This led to the generation of personal links with our sponsor firms – so much so that we're now literally friends with all of our investment bank contacts! We wanted to maintain this close link with our firms throughout the year hence the reduced importance placed on the CLO sub-committee this year. We found that with just two people handling all company contacts – the link between ICFS and the firm was significantly stronger (although it did increase our workload) and this has been the key reason why we've been successful in sponsorship this year.

## Multiple editions of Capital Magazine

The publication you're currently reading didn't exist last year! I felt that we should really emphasise Capital Magazine this year as it gives a chance for students to put across their own viewpoint on financial issues as well as being informative for all members. The Autumn issue proved to be a startling success with so much demand that we ran out of magazines at Freshers Fair on Day 1. As such, following this great success we decided to publish a second issue in the Spring – with a theme of Asia to relate to our Hong Kong trip. We believe our totally in-house produced Capital Magazine really highlights the creative aspect of the society and we are proud of its elevated position within ICFS this year.

## ICFS Hong Kong International Trip

Having helped organised the New York trip last year, I had a good idea of the strengths and weaknesses of prior international trips and we used this to our advantage. Put simply, the trip to Hong Kong is the most ambitious yet and required precision planning. We collaborated with our sponsors last September and all company visits were booked in October – with flights booked by November. This long term planning has helped us create what will be an unforgettable trip towards the end of March. As with Capital Magazine, we really wanted to put the focus on the trip and turn it into our flagship event of the year – sponsors correspondingly agreed and championed the trip, with Asia Pacific recruitment events, profiles on a new dedicated Asia webpage and of course, hosting our members for company visits in Hong Kong. ICFS HK is turning out to be an amazing, unforgettable and genuinely useful experience for our members!

## New role of Senior Vice President

This was unexpected and purely happened by circumstance. Over the summer, I realised that sponsors really liked dealing with just two people for all communication – and as Deepka & I were both in London to do sponsorship this happened automatically. Following the start of the academic year, it became evident that the role of VP Partnerships was rapidly increasing in importance and considering the effort and commitment put in by Deepka – I felt that the role should

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**The array of financial institutions who visit the Business School throughout the year has provided me with an opportunity to interact with industry professionals and develop an understanding of both current market conditions and future career opportunities.**

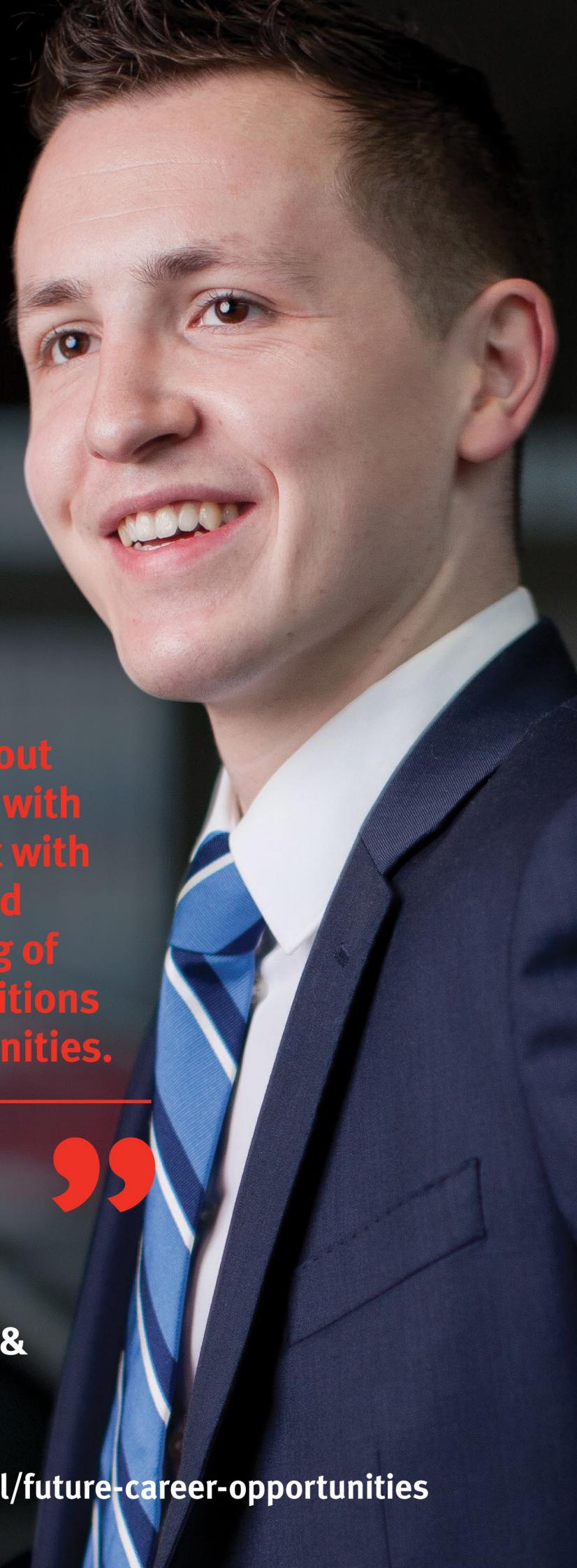
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**David Doherty**  
MSc Finance 2012

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change to reflect the level of work. As such, we changed our constitution to remove the roles of VP Partnerships and VP Corporate Relations – consolidating them into one role: Senior Vice President – which made Deepka second in command of the whole society. I feel that this is more reflective of the workload and also more importantly, it gives a team dynamic to ICFS leadership.

### **Corporate Citizenship Conference**

Being a keen volunteer and having been involved in volunteering internationally – I really wanted to highlight the Corporate & Social Responsibility side of investment banks through a dedicated conference. We successfully collaborated with the Student Led Projects Symposium (SPS) and Imperial Hub for this fantastic pilot event which was a stunning success and a great collaborative effort. ICFS secured the speakers, Mithila Patrunan from the SPS secured interested student projects and marketed the event, while Imperial Hub showcased their own activities and how students could get involved. It was a very wide reaching event – students had a chance not only to learn about CSR projects from guest speakers but also had a chance to pitch their own CSR projects for £750 worth of sponsorship funded by the ICFS. Furthermore, this was a national conference and we had delegates from several other universities attending. As a pilot event, it was essential that it went well and thankfully the conference proved to be a success.

### **Change in ethos & marketing**

This is really what I'm most proud of this year. I've always felt that ICFS takes itself too seriously and should simply just relax a bit ! None of us are bankers – we are all students ! As such, I wanted the committee to lead by example and be pretty informal in our outlook. This has driven a sense of community, approachability and has ensured members are not intimidated by the society. As such, we totally transformed marketing – and it helped that I'm interested in digital graphics and film ! With initiatives such as Market Insights (our own news show), professional quality trailers for events and pretty much a fun new Facebook cover photo every day – it's really kept members interested and has kept the society fresh. ICFS no longer has a professional outlook however it delivers professional opportunities and maintains professional relationships. The fact that we've been able to do this throughout the year has transformed the relationship that we have with members. Simply put, people now actually know who the committee are and are interested in the society itself – not only individual events. I'll definitely miss doing all the fun marketing this

year! Our sponsors have also loved this – as one firm said: "You're the only society I've seen that comes to a sponsorship pitch and shows us a Facebook group with a picture of Gandalf."

### **Technology & Social Media**

Another key strength of this year has been the strong technology focus. Thomas has done a great job of building and providing the technology platforms that we need to market events and keep members informed. I've had fun maintaining our YouTube channel (which has over 4300 views) and my new found obsession: Twitter. With over 190 followers on Twitter in just a couple of months – delivering 24/7 market news direct to members, it's really been an overhaul. The Facebook group has gone from just containing marketing text to having cool banners, pictures and videos on a daily basis – and the group has almost doubled in number since last October ! It really is one of the most active society Facebook groups at Imperial and we are proud of our social media legacy.

### **Special Events – DB & BAML**

As Deepka & I both have worked at BAML & DB respectively – we gave our "home" firms special events that showcased them to the whole society. Deutsche Bank was our sponsor for the Autumn term first year dinner, a new initiative where we took 25 first year students and 6 DB reps out for dinner in the City for an informal evening dinner. The best event of the year however was undisputedly the BAML Winter Festival. Whoever thought an ICFS event would have a 100kg ice-sculpture, Christmas trees, fake snow and huge cakes ? The Winter Festival showcased Bank of America to over 120 members in the Autumn and was our flagship event of 2012. Again, it proved that our informal approach endeared members to our events – resulting in great turnout.

### **Tailored Company Events**

Usually sponsors request events to be run with societies. That's not quite how it worked in ICFS ! Deepka and I specifically talked through tailored sponsorship proposals and marketing packages for each individual firm, ensuring that we suggested events, not our sponsors. This meant that we were confident about the success of each event – as from personal experience we knew that members would like them ! It meant that pretty much no event was a generic company presentation and so events were far more innovative, useful and targeted. Finally of course, it ensured that despite the large number of sponsors – we were able to successfully differentiate between our sponsor firms, keeping everyone happy!

### **ICFS Kenya International Trip**

As a follow up from the Corporate Citi-

zenship Conference, we decided to run a second international trip on a similar scale to Hong Kong – taking members to Kenya in June to work on microfinance projects and initiatives. Co-ordinated with Enactus (SIFE) Imperial and the MASH Foundation Trust, we are going to Kenya to build upon the work done by SIFE projects and introduce members to this whole new area of finance. A totally pilot initiative, we are keen to see the feedback from the trip in June and I'm sure it will match Hong Kong – ending our year in ICFS in style !

### **Cross Partnership with Imperial College Business School & Finance Imperial**

We've always wanted a closer link with the Business School and we achieved those aims this year with over 700 members from Imperial College Business school attending our events. The Business School became a Platinum sponsor and we now work closely together on cross-marketing events and organising initiatives. One of our key initiatives was to run a mini finance course series to introduce Undergraduate students to the world of academic finance and further MSc study. At the time of writing, this pilot course has been completely organised and is about to start ! It's just another example of a pilot initiative that next year's committee can build upon.

Overall, we feel that we have vastly exceeded the expectations of all our members and our sponsors and this has been met with national recognition, with ESSA Accreditation and Rate My Placements naming us as one of the top three student societies in the whole of the UK. The key this year really has been our relaxed, informal and fun approach, tailored events, innovative marketing and most importantly, a team of close friends united with a common passion for the ICFS and a superb Senior Vice President. As such, we truly feel that this year has been a tremendous achievement at all levels and we have no hesitation in stating that this has been by far the most successful year in ICFS history – and we look forward to the next committee taking the society to even further heights !

**Giri Kesavan**  
**President**  
**Imperial College Finance Society**  
2012-13

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# The uniqueness of the Japanese Yen

What makes the Yen so special?  
An examination of the currency's unique characteristics

By Dat Cheam

There are 178 currencies in the world today but just 7 of them account for 80% of the world's foreign exchange. The Japanese Yen is one of the seven above, which is fitting considering that Japan is home to the world's third largest economy. Nonetheless, the Japanese Yen and the Japanese economy in general have provided the world with several lessons in monetary policy. From the "Lost Decade" to current valuations, the historical conditions that have shaped the anomaly that is the Yen will be presented.

## The Bubble of the 80s

Post-war Japan saw incredible growth as Japan shifted its focus from an expansionist military state to an industrialised nation. This was a golden age for Japan, as for three decades it saw its economy grow by leaps and bounds. Average annual growth rates (as measured by GDP) for the 1960s were a staggering 10%, followed by 5% in the 1970s and 4% in the 1980s. Even at 4%, Japanese growth was outpacing its contemporaries in the developed world with the US registering 3% in the same timeframe. However, unbeknownst to policy makers of the time, rising stock and real estate prices were forming a bubble - a bubble that was soon to be popped.

## The Lost Decade of the 90s

The overheating Japanese economy was brought to an abrupt standstill at the start of the 1990s. Equity values plunged 60% from late 1989 to August 1992, while land values in 2001 were in some places less than 30% of their peak value. There are several theories behind the severity of the Lost Decade, among which are the central bank's stop-go interventions. The Bank of Japan's (BoJ) initial policy of low interest rates led to the markets being flooded with cheap credit, which in turn led to rapid growth and the beginnings of the bubble. Concerned with rising asset prices and inflation, the BoJ then decided to intervene by restricting the money supply in the late 1980s. Their methods were effective in putting a stop to rising asset prices, but at a terrible consequence: rapid deflation and a liquidity trap. Consumers stopped consuming, having no confidence that they can earn a higher rate of return (as cash would increase in value relative to fixed assets in a deflation), as well as believing that goods and services will simply be cheaper tomorrow.

The BoJ then dramatically reversed course by cutting its interest rates to historical lows in the hopes of kick-starting their economy. It was too late however; the vicious cycle was already in place. It took a decade of several ineffective fiscal policies, but nonetheless in 2001, the BoJ began to re-inflate their economy through its money supply (by debt monetiza-

tion).

The aftermath from the Lost Decade continues on to this day. Japan has rarely exceeded a 2% annual growth between 2001 and 2011, and the effects of the event on Japanese policy makers have yielded a somewhat politically-influenced BoJ, which in turn directly affects the free-market flows of the Yen.

## The Yen Carry Trade

Due to the incredibly low interest rates as an aftermath of the Lost Decade, the Yen of the 2000s became synonymous with the carry trade. Generally speaking, the term "carry trade" implies borrowing at a low interest rate and investing in an asset that provides a higher rate of return, thus allowing the investor to leverage and pocket the difference. The Yen, with real interest rates close to 0%, is thus uniquely suited for this trade. By early 2007, it was estimated that about US \$1 trillion had been invested in the Yen carry trade, making the Yen one of the most borrowed currencies in the world.

However, there is a caveat in that the Yen carry trade only works when there are higher yielding (and thus usually riskier) assets available to the investor. This unravelled in late 2007 when the global credit crunch forced scarce returns on practically every risky asset class, prompting investors to liquidate their portfolios in favour of safe-havens such as bonds. Speculators unwinding their Yen carry trade to repay their Yen-denominated loans and further repatriation of the Yen drove the Japanese currency to surge against its rivals. In 2008, the Yen had gained a staggering 29% against the Euro.

## The Currency Wars

As a result of the unprecedented global economic melt-down of 2008, central banks around the world attempted to stimulate their economies by inducing liquidity. Interest rates were cut to encourage borrowing and spending, while bonds buybacks were issued to essentially place liquid cash directly in the hands of investors. Wall Street called it "quantitative easing". It was in truth, nothing short of printing money.

With an increased money supply, currencies that had undergone quantitative easing were soon being devalued by virtue of supply and demand. The Yen, which was already at such low interest rates, began appreciating relative to currencies such as the Dollar and Euro. This hurt the export-driven Japanese economy severely as it relied on a weak Yen to make its exports more competitive.

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In response to the currency wars and its middling growth, the Japanese government soon joined in, demanding a 2% inflation target from the BoJ. This target was astonishingly high, considering that inflation had barely topped 1% in its past years, and thus was an indirect license for the BoJ to pursue aggressive easing. Markets responded immediately with the Nikkei posting fresh highs and the Yen devaluing from ¥76 to ¥90 per USD. Nonetheless, as the past 20 years has shown, whether further calls for liquidity will spur growth remains to be seen.

#### The Japanese Debt

The direct consequence of its abnormally loose monetary policy can be seen in the Japanese national budget. The continuous spending has led to a current debt load of a massive 230% of its annual GDP. By contrast, Greece, the most indebted of the crisis EU nations, had a debt load of 165% in its worst times. Such profligate spending would have, in most countries, alerted the world to a ticking time bomb.

Japan once again proves an anomaly. Unlike most countries, most of its debt is held domestically, i.e.: it borrows money from its own people. What's more, the Japanese are apparently so

convinced that their government would be able to pay off its debts that they are continuing to lend money. Japanese borrowing rates are at a mere 0.75%, even less so than Germany, the euro-zone's healthiest economy.

#### The Yen Today

The Yen today remains an oddity with its own set of governing economic theories. It retains its safe-haven appeal despite its massive national debt, so much so that several Asian countries

**"Carry trades still remain a major funding source and help lend to the safe-haven appeal of the currency."**

retain the Yen as a secondary currency in their central banks. Its export driven economy relies on the promotion of a weak currency, as opposed to the common notion of "strong is good" held by a consumer-centric country such as ours. Furthermore, severe disasters that cripple its economy such as a tsunami hardly weaken the Yen; instead, repatriation flows to repair the damaged infrastructure actually strengthened the Japanese currency.

The BoJ is also continuing on its path of low interest rates and bond buying despite its past ineffectiveness and

*The Bubble in the 80s, low interest rates and the Yen carry trade are few of the many properties of the Yen that make the currency so unique*

obvious risk to its expanding budget. Despite the low rates however, the Yen carry trade is now less attractive since central banks have largely cut their interest rates as well. Nonetheless, carry trades still remain a major funding source and help lend to the safe-haven appeal of the currency.

The Yen today also remains a traditional market determinant of risk. Currently, the Japanese currency is often traded in tandem with risk-sensitive currencies such as that of the Australian Dollar in carry trades. The USD/JPY pair is also known to have a close correlation with US treasuries and thus appeal to risk plays by speculators.

Lastly, recent currency flows have brought a field day for the Yen bears. The fall of the Japanese currency on the 2% inflation target set by Prime Minister Shinzo Abe has led to what is known as "Abe-economics". Whether Abeconomics will be different from its predecessors remains to be seen, but in the short-term at least it seems to have finally placed Japan in a favourable position.

# Do you have to be a banker to **work** in investment banking?

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# Opportunities and challenges for RMB internationalization

What lies ahead for the Ren Min Bi (RMB)

By Tao Ding

With more and more Chinese studying, travelling or doing business abroad, the Chinese currency, Renminbi (RMB), has become more and more influential. In the next decade, the internationalization of RMB may become one of the most important financial developments in the world. In the course of last decade, things such as the continual growth of the Chinese economy and subprime mortgage crisis (that led to the financial crisis in 2008) make people contemplate the probability that the USD may lose its status as the world's reserve currency.

The Chinese government has the incentive to promote the RMB as a world currency. China has been recording consistent trade surpluses since 1995 but China's trade surplus may, in the future, turn to a trade deficit because of an increase in imports resulting from a large population base and lack of natural resources. However, China can seize the initiative if it can purchase the resources it requires in domestic currency. Furthermore, if trade between China and other countries can be settled in domestic currency, China can, to a great extent, avoid monitoring by the United States. There would, therefore, be more flexibility to export goods and import the required natural resources.

The new global economic structure also has a positive impact on accelerating the pace of the internationalization of the RMB. During the financial crisis, USD liquidity dried up and in order to preserve USD reserves, neighbouring countries and trading partners of China agreed to the cross-border RMB trade settlement program offered by China's central bank, the People's Bank of China. Under the agreement, foreign firms are able to borrow RMB funds for trade settlement from local banks. In other words, foreign firms can import goods from China by paying in RMB instead of USD. Although it has been almost 5 years since the advent of the financial crisis, both foreign countries and Chinese government are interested in extending the time horizon of the

program.

The internationalization of the RMB has been a popular topic among international banks from the start, because it means a new opportunity for them. The development speed of international banks such as HSBC and Standard Chartered, in Mainland China, has been constrained. But, every transaction, or deal, involving the RMB, is totally new to them. With the largest networks in developing countries, those banks are able to benefit from international trading with China. In fact, some banks have taken action. On April 18, 2012, HSBC launched London's first offshore Yuan bond, also known as "dim sum" bond. It's also a signal that London may become a centre for offshore Yuan trading alongside Hong Kong. On Nov 14, 2012, Standard Chartered launched the Renminbi Globalization Index (RGI), which is the first benchmark of its kind to properly and effectively monitor Renminbi-based business activity around the globe.

Challenges usually come with opportunities. With the progress of the internationalization of the RMB, it might weaken the control of government over capital flows and ability to set interest rates and so forth. For instance, the initiation of the internationalization of the RMB coincided with the period that China was experiencing an overheated economy. The inflow of RMB increased the pressure on excess domestic capital. Money will always flow to the most profitable area. When the Chinese government reduces the constraint on the convertibility of the capital account, capital can inflow and outflow more freely. As a result, the regulatory authority will have to confront the new challenges.

In contrast to the foreign-owned banks, state-owned banks in China have little incentive, or interest, to push the internationalization of the RMB. There are a couple of reasons to explain their behaviour. First of all, state-owned banks have relatively small global networks. Most of them only

cover the Chinese market. They don't have any advantages when competing with others in foreign or third market. Second, state-owned banks don't have enough incentive to expand their global network. In Mainland China, state-owned banks have absolute advantages and are protected by the government-mandated spread between the deposit rate and the lending rate. With the pressure of meeting capital adequacy ratio, State-owned banks want to spend the capital on the most profitable and stable businesses. In other words, they are reluctant to be involved in any risky businesses even though businesses may bring profits. Without the full support from state-owned banks, the RMB may walk advance at a much slower pace on its way to internationalization.

With the expectation of the appreciation of the RMB, it has become quite popular among investors. However, apart from the lure of appreciation, RMB assets have limited attraction for investors. In the event that the exchange rate of the RMB remains basically in the equilibrium, bi-directional volatility may be reinforced. This phenomenon may be beneficial to the development of derivatives, but, as an asset, the RMB's attraction to investors is reduced. Additionally, the internationalization of the RMB depends on the continuing performance of Chinese economy and the degree of reform and opening-up policy, which are quite uncertain.

Although people seem to have reached the consensus that the internationalization of the RMB is an inevitable trend, there are lots of debates about the process such as, the risks involved, how big the risk is and how fast the pace should be. If the RMB could be converted freely in the future, government's control over capital inflows and outflow will be definitely weakened. I believe, however, that the benefits will outweigh the cost.

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# Tricky Interview Questions

By Inside Buzz

## CORPORATE FINANCE / CORPORATE VALUATION

### How do you value a company?

This is quite a broad question, so start with the methods you would use and go through them one at a time. It will also impress if you discuss the pros and cons of each method. The main ways to value a company are: precedent transactions analysis, comparable company analysis and discounted cash flow analysis.

1

#### Precedent Transactions Analysis

This is when you look at how much others have paid for similar companies to the one you are valuing to determine how much the company is worth. To use this method effectively you need to be extremely familiar with the industry of the company you are valuing as well as the normal premiums paid for such a company. This can be a relatively easy method to use since all the information is public and thus easy to obtain and also since the past transactions actually happened, you can be confident that analysis based on this is extremely plausible. But on the other hand, what if the market during the past transactions was extremely different from present market conditions? Can you really base the value of one company on the value of another that is not exactly the same? These are some issues you should think about before your interview so you can discuss them at length with your interviewer.

2

#### Comparable Company Analysis

This is similar to Precedent Transactions Analysis except you are using the whole company as a comparison unit, not the purchase of a company. So to use this method you would also seek out similar companies to the one you are valuing and look at their price vs. earnings, EBITDA, stock price and any other variables you think would be an indicator of the health of a company.

3

#### Discounted Cash Flow Analysis

This is when you use future cash flow, or what the company will make in the future, to determine what the company is worth now. To calculate DCF you need to work out what the projected or future cash flow is for a company for the next 10 years. Then work out how much that would be in today's terms by "discounting" it at the rate that would give a return on investment. Then you add in the terminal value of the company and that will tell you how much the company is worth. Though this is the preferred method to value a company, it still has its flaws because the projected earning and discounted rate are figures that you set using your best guess, there's no concrete maths equation to work it out so DCF does have a certain amount of subjectivity to it.

#### What's a leveraged buyout?

A leveraged buyout (LBO) is when a company or investor buys another company using mostly borrowed money, loans or even bonds to be able to make the purchase. The assets of the company being acquired are usually used as collateral for those loans. Sometimes the ratio of debt to equity in an LBO can be 90-10. Any debt percentage higher than that can lead to bankruptcy.



an investment bank in a year's time.

**If I introduce a risky stock into a portfolio, is that good or bad?**  
This is not a yes or no answer. One stock does not a portfolio make; the health of a portfolio depends on all of its parts and how they work together, or are correlated. Generally stocks that are negatively correlated make for a less risky portfolio (so a petrol company and an airline would be negatively correlated since when the price of petrol goes up, it's good for the petrol company but bad for the airline as it makes their cost rise). On a related note, to be a good investment manager you'll have to take some risk. If you convey in the interview that you are not comfortable taking any risk and probably would not do so if hired, rather than convince them that you are careful, this will convince them that you won't make any money for the company. The amount of risk you're allowed and encouraged to take varies from place to place, but you may as well get used to the idea now that you're going to have to take some risk to be a successful investment manager.

**Since you have no previous experience in the markets, tell me why you want to work here and why are you interested in investment management?**

This is the most important question for those who have decided on a career change or for those grads who are applying for their first job. They are not going to expect you to be familiar with detailed financial models or know advanced algorithms, but you will have to tell them why you are interested in the markets, describe what about following stocks and companies excites you and highlight which of your qualities makes you best suited to work on the buy-side. People in the industry say that when they first got into the business, their initial interviewers did not expect them to know the technical stuff, they only really looked for people with strong personalities, enthusiasm and drive – don't underestimate the power of those qualities.

## MISC / GENERAL

### **What is an income statement?**

This is just a simple record of a company's gains and losses, including expenses. The income sheet represents a specified amount of time and includes everything from the cost of renting the office to the depreciation of assets.

### **What is a cash flow statement?**

A cash flow statement tracks the actual cash that goes in and out of a company. This is important to see how liquid the company is. If it is rich in assets but not necessarily cash, there could be problems.

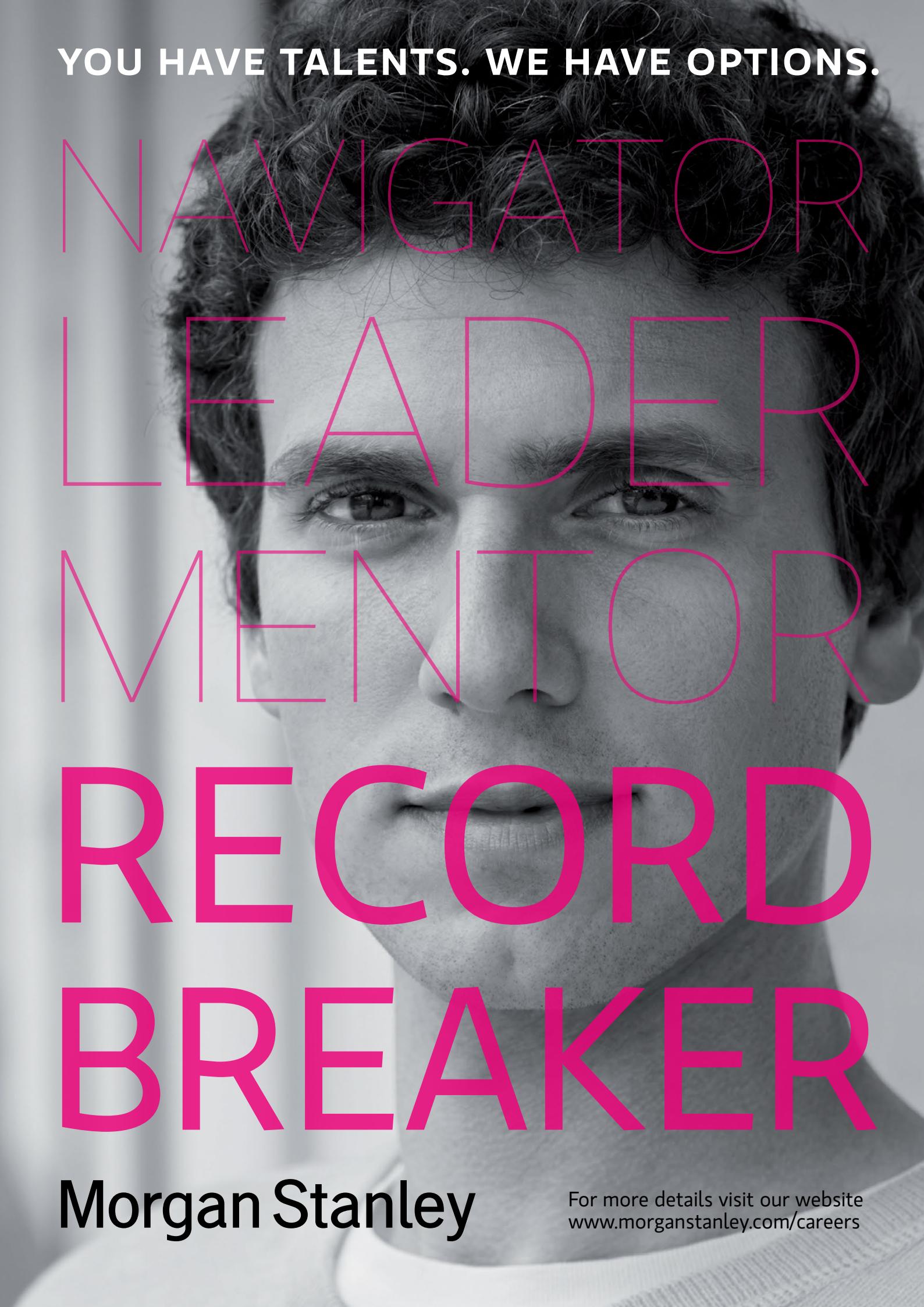
### **Explain to me what makes up a cash flow statement**

The place to start when looking at a cash flow statement is the beginning cash balance. Then you must look at cash from operations, then the cash made from any investments, then cash from financing. All of that will make up the ending cash.



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