

Question :

You have just been hired by Depo Bank, a Swiss bank, as a risk controller. Given the very small size of this bank, the risk control function is part of the risk management department.

- a) Severin, one of your best friends, would like to have a better understanding of your job. He asks you several questions.
- a1) What are the main 4 tasks the risk management department is responsible for within the bank? (4 points)
 - a2) Is your department involved in the new products committee of the bank? Explain. (6 points)
 - a3) What are the main functions involved in the internal control system of the bank? Explain. (10 points)
- b) Monday, April 9th, your boss asks you to verify if a transaction made by Luis last Friday, the trader of Depo Bank, is compliant with the best execution principle.

At 2:10 pm, Luis received a client's order to buy "at best" 100 Nonatis shares, considered as illiquid. The trader executed the order at Instinet, an MTF (Multilateral Trading Facility) approved by Depo Bank. The order was executed at 2:15pm at a price of USD 124. After some checks, you discover that, at the execution time, the Nonatis shares were quoted USD 115/120 at the Youpeeland Stock Exchange. The quantity available at each quote was equal to 50. There were no other quotes in the order book of Nonatis shares at the execution time.

- b1) What is the purpose of the "best execution" principle for clients of Depo Bank? (4 points)
- b2) According to available information, is this transaction compliant with the best execution principle? For the completeness of the control report, your boss asks you to explain your answer by considering each of the 7 criteria used to judge if a transaction is compliant with the best execution principle. (30 points)