

Book review: 'How the City Really Works, 2nd Edition'

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The City conjures up different images for different people. Some may see the long-gone City gents in their bowler hats. For others, the City may invoke a picture of wheeler-dealers celebrating their mega bonuses in a champagne bar. Others may see the City as full of big faceless, financial institutions operating in a high-octane world far removed from most people's daily lives.

For me, who has spent all of my working life in the City, it is a place where I, and many others, eke out a living working on really challenging, occasionally headline-grabbing, deals alongside some of the brightest minds. Despite all of my years working in the City, however, there are plenty of gaps in my knowledge of (adopting the title of the book) how things really work — and indeed, what certain things are. This book, written by the very well-respected Alexander Davidson, goes a very long way in plugging the gaps in my (and no doubt others') knowledge. The book provides a very useful insight into the workings of the City, the products which it trades in, and the deals which are transacted within its square mile boundaries.

Overview

This book is very practical — it deals with what goes on, how and by whom. It is also very readable, concise and easy to follow, as it is divided up into easily digestible, bite-size chunks. You should not be fooled, however, by the easy to read and comprehend style. A vast amount of research and analysis has gone on behind the scenes to distil down the important facts and messages which are contained in this book.

The book demystifies a lot of what goes on in the City. It gets behind the jargon, acronyms and other opaque language (such as what a RIE is — a recognised investment exchange, and what a dark liquidity pool is — an electronic trading venue that matches buyers and sellers anonymously). It makes the City and its goings-on generally much more accessible. The book also celebrates the success of the City, its vibrancy and the diversity of its activities. The City is, in many ways, the engine of the UK's financial services economy. As the author states, "London is behind only New York as a global financial market, and in some areas, it is ahead".

It is fair to say that, at the moment, there may be a fair few harbingers of doom and gloom in the City, concerned with the fallout from the so-called "credit crunch". As is apparent from this book, however, the City has an incredible ability to bounce back from setbacks to emerge stronger and more resilient. It has, of course, survived the Big Bang, Black Monday and Black Wednesday.

Areas covered

There is useful background reading for any would-be investors in, for example, shares. There is an overview of how companies float (i.e., become admitted to a particular market), the markets in which their shares are traded, how the shares are valued, and the different types of stockbroker who deal in shares. There is also an interesting commentary on how "M&A talk" (i.e., rumours of possible mergers and acquisitions activity can drive UK share markets). The book notes that there is significant consolidation among stock exchanges

across Europe and the United States.

Davidson provides a very useful overview of the different types of products which are traded within the City, such as derivatives (including commodity derivatives, options, futures, and warrants), bonds, credit default swaps and collateralised debt obligations (which one commentator has described as "toxic waste"). Incidentally, many such CDOs are backed by pools of sub-prime mortgages. There is also a section on other products, such as pooled investments (e.g., investment funds such as unit trusts).

Finally, the book gives an insight into the main City protagonists and what role they play, such as investors (retail or institutional), analysts, investment bankers, brokers, PR agents, rating agencies and, of course, not forgetting regulators and quasi-regulators.

Second edition

The second edition of the book has been updated to address a number of matters which are topical and current, such as, the role of the Bank of England in the Northern Rock crisis, the vast increase in consumer borrowing in the UK over the past few years, and developments in accounting issues.

The book also covers new developments, such as the progress of the draft EU directive known as Solvency II which will usher in a new risk-based capital regime for (re)insurers based in the EU, and the Lloyd's of London insurance market's focus on efficient processing in an effort to reduce operating costs and maintain its competitive position in the global insurance market. The book also deals for the first time with financial fraud, which is the author's "own sneaking favourite". This chapter makes for a fascinating and eye-opening read.

Finally, regarding the future, it is noted that the City remains an attractive place to do business. It is well placed in terms of time zones, it is open to foreigners, and it has a "sound financial infrastructure and an acclaimed regulatory regime". Corporate governance is identified, quite rightly, as an issue which will continue to be of vital importance.

Final thoughts

The book contains a wealth of material. It will be enjoyed by many, from students through to City workers and to anyone with an interest in the City and financial matters generally. It also provides a great starting point for more advanced reading, and contains helpful appendices with details of useful web sites and suggested further reading. The book can be read from cover to cover, or it can be a research tool, consulted on an "as needs" basis for an insight into a particular market or product. Either way, it will be an enjoyable and informative read.

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