

*The Times: How the Global Financial Markets Really Work* is a guide to financial markets post-Lehman Brothers collapse, how they work, how they are connected with each other and across borders, and how regulators and central banks struggle to keep up.

The thesis of the book is that, despite ups and downs of the credit crisis, nothing much has changed and that many of the developments, including establishment of new regulatory bodies with a focus on systemic risk, have amounted to shifting the chairs on the deck of the Titanic. Credit default swaps remain because they spread risk as well as creating it, and, when a crisis hits, countries still put their national interests first.

The book covers the causes of the credit crisis, tracking the links between US subprime mortgage selling, trading of collateralized debt obligations and the seizing up of markets. Monetary policy comes under critical focus. We see how financial regulators are suspicious of cross-border cooperation despite the urgings of G20 and establishment of the Financial Stability Board. Fraudsters have become more transparent in the crisis, as well as more prevalent.

Next, we look at commercial banks and how they depend on deposits, and the flaws in the business model of Northern Rock. I analyze the Icelandic bank failures and flaws in the European Union passporting regime which, in the event of an EU bank's collapse, would leave UK depositors with access only to local compensation schemes. The book covers capital adequacy requirements for banks and revisions underway so they will no longer be procyclical.

We see how shadow banking and structured investment vehicles have enabled banks to put risky activity off-balance sheet. We explore calls for tax haven transparency, including implications of a 2008 Florida indictment of a US executive, OECD recommendations, and the information exchange required by the EU Savings Directive. We look at Sir Allen Stanford's use of offshore centres.

The book explores the vulnerability of building societies in the crisis and how, in late 2008, some US insurance companies moved to acquire a savings and loan association to qualify for the US Treasury's TARP rescue financing facility. We turn to central banks, their links with the Bank for International Settlements and, in particular, how the US Federal Reserve System works. Conventional monetary policy – open market operations and setting the discount rate – are discussed, as are credit easing methods. We examine the failures of the Tripartite system – The Treasury, the Bank of England and the Financial Services Authority – and the Conservatives' case for dismantling it.

We examine how the belief in efficient markets led to the credit crisis and assess International Monetary Fund in terms of damage it has inflicted on some borrowers by imposing Draconian lending conditions, but also on how it has become both more flexible and important as a lender of last resort.

The book explains how the stock market works, how to calculate main ratios such as the PE ratio and return on capital employed, and the basics of charting. There are instructions on how to calculate discounted cash flows. We look at investment strategies for the recession, referring to those of Warren Buffett, Anthony Bolton and Mark Mobius.

We scrutinize money markets and how lending rates such as LIBOR work. We look at securities such as Treasuries, certificates of deposit, local authority bonds, commercial paper, bills of exchange, and, in detail, the repo market. I explain swaps and forward rate

agreements, and we look at domestic bonds, describing how they are classified, yields and basic valuation calculations. We look at junk bonds and Eurobonds.

There is a chapter on investment banking, in which we assess the impact of the collapse of Lehman Brothers. We note the restrictions on Morgan Stanley and Goldman Sachs since they became bank holding companies in 2008 and also the advantages being, in this way, under the federal authorities' umbrella of protection. I explain how mergers & acquisitions work, and the fee structure, with payment to banks only if bids proceed. I cover how a book build for an equity IPO works, and how it is priced according to demand rather than intrinsic value, and the role of retail investors in holding up the share price while institutional investors flip the stock. We focus on rights issues, including recent changes in timetable and, at proposal stage, for structure, as put forward by the Rights Review Group, established in 2008 by the UK Chancellor. I explain other capital-raising methods such as an accelerated book build and a bought deal.

In a chapter on credit derivatives and asset-backed securities, we look in detail at the workings of collateralized debt obligations, securitization, and credit default swaps, and the role of CDS writers, including AIG and monoline insurers, in the credit crisis. We see how derivatives are not culpable as a product; it is more about how they have been used. We look at regulation planned for credit rating agencies, their conflicts of interest, and how they have been owned by the regulator, but also how they have been scapegoats for bigger problems.

We look at how the insurance industry works, including Lloyd's and the London market. We cover new risks such as nanotechnology and climate change, competitive threats from Bermuda, the impact of AIG's bailout. We compare Lloyd's 1980s LMX spiral, which brought the market almost to bankruptcy, with the recent pass-the-parcel trading of mortgage-

backed securities. We look at regulatory developments, including group support controversies around Solvency II, and prospects for micro-insurance in India, Egypt and beyond.

The book covers financial service regulation, comparing the US Securities & Exchange Commission's rules-based approach and the UK FSA's focus on outcomes. We see how some EU legislation hampers the sophisticated UK regulatory regime. We look at proposals to change regulation, including, in the US, to put the Federal Reserve in the role of overseeing risk and, in the UK, to remove powers from the FSA. The book explains the FSA's current, more intrusive line with member firms.

We turn to money laundering, and how its perpetrators are usually too sophisticated to be caught, and the strong links with fraud. I describe the Madoff fraud and its lessons for investors, including avoidance of charming but secretive operators; a family firm without independent checks; a consistency of investment returns that is too good to be true; and an auditor that is one man and a dog. We look at the legal cases arising from Madoff and at boiler room frauds, where the FSA can act only if there are UK links, and at the growth of electronic fraud.

In a chapter on corporate governance, we take in lessons from Enron and WorldCom, and the Sarbanes-Oxley Act – widely criticized but adding a premium to the share price of new issues in New York. We cover international financial reporting standards, including mark-to-market controversies, and we explore executive compensation, including firms' legal position. Another chapter explains foreign exchange and how exchange rates can make a difference to corporate profits. In a focus on commodities, I explain volatility in the market and the potential for portfolio diversification. We look at derivatives for retail investors, including spread bets and contracts for difference, which can be used to take a short position.

We move on to exchanges and trading systems, including competitive threats to the London Stock Exchange. We look at SETS and electronic trading and the continued role of market makers. We focus on the challenge from multilateral trading facilities, with high speeds and low prices given that, unlike the exchange, they don't have legacy systems. We look at why it is unattractive to be a systematic internaliser and how traders exploit dark liquidity rules. We turn to clearing and settlement, looking at DTCC and its plans in Europe and the role of Euroclear as well as a code of conduct in clearing and settlement and the European Central Bank's TARGET2-securities plan.

There is a chapter on the growing prominence of emerging markets, including China, with its vast currency reserves and its role as a major importer and exporter of commodities; India, after the knock to its image from the January 2009 Satyam fraud; Brazil, which is the world's largest sugar and coffee producer but has debt at 42 per cent of GDP; and Russia, where the Kremlin controls business, the oil price dictates stock markets, and journalists who expose corruption are sometimes shot.

We focus on pooled investments, including money market funds, no longer as safe as they were, and split capital investment companies, post-UK scandal. We look at fundamental analysts and the restrictions under which they operate, and the powers of public relations, the role of investor relations and how the financial journalist is often manipulated. We end up with a chapter on personal finance and how it is linked to the wholesale markets, and about product mis-selling issues. The book has a standalone glossary and several appendices of web site addresses, as well as a selective reading list complete with reviews.

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