

REVIEW



THE MEMBERS' MAGAZINE OF THE CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

cisi.org/s&ir

Christopher Adams

Reasons to be cautious following the end of QE2, p11

The retail model

Why the qualifications requirements of the wholesale sector should keep pace with those of the retail sector, p16



Time to change?

The pressures of working in financial services *page 12*



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REVIEW

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50th Anniversary
1962-2012





Membership matters

CISI OPINION

Chartered Institute for Securities & Investment (CISI) members have pinpointed CPD benefits as the most valuable part of their membership

THE CISI'S ANNUAL survey of its members had more than 1,500 responses and showed that members value continuing professional development (CPD) membership benefits above all others. Although this will not surprise colleagues affected by the Retail Distribution Review (RDR) – which will entail compulsory CPD – the survey included members in institutional and wholesale roles, operations and compliance, as well as retail advisers. With the RDR at the forefront of many members' minds, CPD is clearly an area of focus. It tops the chart of benefits considered most important, with CPD events and CPD online taking first and second place respectively. Of those who had attended CISI CPD events, 95% rated them as good or excellent. Interestingly, 81% of respondents believe that CPD should be mandatory for everyone working in the industry – not just those affected by the RDR.

Suggestions to improve the CPD scheme chimed well with developments that are already underway based on the previous year's feedback: better guidance and support through the audit process, a more user-friendly online system with improved navigation, advanced Professional Refresher courses and an increased number of webcasts online. At the time of the survey, CISI TV and the publications app were yet to launch; members now have free access to more than 40 webcasts on CISI TV and to the *S&IR*, *Investment Management Review* and *Regulatory Update* via the CISI app. By the time you read this, the latest issues of all three publications will be available to download. Of all the benefits available to members, the *Regulatory Update* is the third most valued, while the *S&IR* is the most widely used. Professional Refresher, the elearning tool, now has 33 topics, with Islamic Banking, Data Protection and Insolvency and

Bankruptcy being the most recent additions, and we are always looking to expand the list to meet member demand. Unfortunately, the survey revealed a fairly low level of awareness of this benefit, which is free to members, so we are seeking to address that. While 88% of respondents feel that the CISI now offers sufficient benefits to members, the Institute is committed to constantly seeking new ways to offer even more. The CPD online system is currently undergoing further development

A large majority believe that CPD should be mandatory for everyone working in the industry – not just those affected by the RDR

and will differentiate members affected by the RDR, and so ensure that everyone has a logging scheme appropriate to their specific needs. A new guide to CPD, including enhanced assistance for the auditing process, is planned for release over the summer, to be followed by a 'webinar' on CPD. Other suggestions under consideration are networking events exclusively for young professionals, discounts on membership fees for other professional bodies and access to job vacancies. About three-quarters (77%) of members have their fees paid by their firms, but the overwhelming majority of them (84%) would be happy to pay their own subscriptions if they had to. The vast majority of members (78%) responded positively when asked if they felt that CISI membership was necessary to their profession; this was a rise of 5% on last year. We are extremely heartened by the support shown by members, and not least the large number of offers of help in various areas of our work, such as educational initiatives in schools. ■

Membership survey fact file

- ◆ The vast majority (79%) of responses came from Fellows and members (including personally Chartered members). Associate members accounted for 20% of responses.
- ◆ There was a 70/30 split between private client and wholesale, with wealth management the single biggest type of firm identified (35% overall).
- ◆ London-based members provided 45% of the sample. Scotland had the next highest response rate at 9%, followed by Jersey with 6%. All regions were represented in the survey responses.



CONFERENCE

Top speakers attract sell-out audience

The Chartered Institute for Securities & Investment (CISI) Annual Conference was again a sell-out event. More than 200 CISI members filled Glaziers Hall, London to hear a variety of speakers give messages that were not universally welcomed.

In an opening address, CISI Chairman Alan Yarrow, Chartered FCSI(Hon), reminded members of the value of the City to the UK and the danger of assuming that its pre-eminent world position is assured, come what may.

Mark Hoban MP, Financial Secretary to the Treasury, then reinforced the Government's view that Basel III must be implemented as written and that attempts to water it down should be resisted. He sought to reassure members that a constant dialogue with Brussels is necessary to ensure that the UK is properly heard and that the Government would pursue this actively.

FSA Director of Conduct Policy Sheila Nicoll put the cat among the pigeons by advising the audience of a 'Dear CEO' letter that the regulator was sending to wealth managers on

the subject of suitability. This followed a sample review of firms that conveyed the FSA's concerns about the industry taking a procedural approach to demonstrating the suitability of individual investment strategies and portfolios to their customers.

Ruth Lea, Arbutnot Banking Group Economic Adviser, produced a sobering assessment of the UK economy, comparing the current situation with that in previous downturns. Her view is that the UK has some way to go if it is to reach even its pre-recession financial position.

High-frequency trading is not an obvious subject for a lively session, but members were entertained, as well as informed, about its merits. A vote both before and following the presentation saw a big change in opinion, from nearly 90% viewing the system with suspicion to some 60% saying that they understood the benefits.



Mark Hoban MP, Financial Secretary to the Treasury, addresses the conference

Members also heard from senior representatives of the Bahraini financial community, who responded openly to questions from the floor regarding turbulence in the Kingdom.

There were presentations on retaining talented staff and the conference ended with another lively debate in which British Bankers' Association Chief Executive Angela Knight CBE FCSI(Hon) and Mark Cooke of Barclays Wealth discussed their industry concerns for 2012. The event generated extensive press coverage.

AGM

Institute Annual General Meeting

The Institute's Annual General Meeting (AGM) will be held at the CISI, 8 Eastcheap, London EC3M 1AE, on **Thursday 22 September 2011 at 10.30am**.

Fellows (FCSI) and Members (MCSI) of the Institute may vote on the resolutions by:

- ◆ using the online link in the members' section of the Institute's website at cisi.org
- ◆ using Form A to appoint the Chairman as their proxy
- ◆ using Form B to appoint a proxy, who need not be a member, to attend the meeting and vote on their behalf
- ◆ attending the AGM and voting in person.

Please note that the AGM notice and voting form, and online voting facility, will be available to voting members from Monday 15 August 2011.

The AGM notice and voting form will also be available to voting members by post. Please apply to Linda Raven at linda.raven@cisi.org or +44 (0)20 7645 0603 from Monday 15 August.

Voting forms, whether completed online or sent by post, must be received by the Company Secretary not later than 11am on 20 September 2011.

EXTERNAL SPECIALISTS

"Great to have you on board," says CISI

HMS Belfast, the World War II battleship moored on the Thames in London, was the historic setting as the CISI said a big thank you to its external specialists.

Industry experts around the world play an invaluable role in contributing to the CISI's work in diverse ways. These include sitting on a range of panels and committees – exam syllabus, disciplinary, editorial – and professional interest forums. In addition, practitioners write or review workbooks, set exam questions and chair or speak at events.

Each year, the CISI holds a social event for its external specialists. The latest gathering, 'Summer Sundowners', gave more than 160 guests the opportunity to tour **HMS Belfast** and enjoy a jazz band and refreshments on the deck.

CISI Managing Director Ruth Martin said: "The CISI's position and reputation as a professional body rests substantially on the relevance of our products and services. It is our external specialists who enable us to make that a reality."

- ◆ See page 26 for details of how to become a CISI external specialist.



Guests enjoy the HMS Belfast event

1,083

The number of members already using the new CISI publications app to download the S&IR, Regulatory Update and Investment Management Review. The app is available at cisi.org/app



RDR

CISI on the road to FSA accreditation

The FSA has advised the CISI that it is "minded to accredit" the Institute as a body that provides required verification under the professionalism strand of the Retail Distribution Review (RDR).

The FSA will consult on its provisional proposals and, should it recommend formal accreditation to its board, the CISI will be able to issue a statement of professional standing (SPS) to individual retail investment advisers. In order to obtain an SPS, which the FSA has stated will be a mandatory requirement for investment advisers from 2013, individuals must confirm that:

- ▶ they have evidence of a relevant qualification, including gap-fill, if required
- ▶ they have carried out 35 hours of appropriate continuing professional development activity
- ▶ they have declared their compliance with both APER (statement of principles and code of practice for approved persons) and the CISI Code of Conduct.

The CISI will limit the issuance of the SPS to members, plus staff of its corporate supporters, who will

already have demonstrated their commitment to professionalism through adherence to its Code of Conduct. The CISI will be unable to verify individuals who have not declared their compliance with the CISI Code of Conduct.

CISI Chief Executive Simon Culhane, Chartered FCSI, said: "We are pleased that we are well on the road to being appointed as an accredited body, which means we will soon be able to provide our members with the SPS to allow them to comply with the new FSA RDR requirements."

The CISI will also publish a register of RDR members in good standing.

The criteria to become an FSA-accredited body include:

- ▶ acting in the public interest and further development of the profession
- ▶ carrying out effective independent verification services
- ▶ having appropriate systems and controls in place and providing evidence to the FSA of continuing effectiveness of verification procedures
- ▶ being financially sound
- ▶ co-operating with the FSA on an ongoing basis.

ISLAMIC FINANCE

Joining forces

The UK Islamic Finance Secretariat (UKIFS), which the CISI hosted in its inaugural year, has been integrated into TheCityUK (TCUK).

Launched in March 2010, UKIFS is the leading cross-sector body that assists with the promotion and development of Islamic finance, representing the UK both domestically and internationally. TheCityUK is an independent body that promotes the UK financial industry and related professional services.

CISI Managing Director Ruth Martin said: "We are extremely pleased to realise such a satisfactory outcome for UKIFS, which now has a secure future within TCUK. TCUK's promotional remit is an excellent fit for UKIFS."

UKIFS' working group structures and member base will be integrated into TCUK's operations. Members of TCUK's board and executive will be appointed to the board of UKIFS. Richard Thomas FCSI, CEO of Gatehouse Bank and a pioneer of Islamic finance, has been appointed Chair of the working groups to support the development of UKIFS.

The UK is the leading western provider of Islamic finance. Islamic funds managed in the UK have combined assets of \$300m.

PUBLICATIONS

New Regulatory Update



The latest edition of the CISI Regulatory Update is now available in the members' area of the Institute's website.

Many of the G20's changes have been translated into new detailed rules by the EU and FSA. Other regulatory developments include:

- ▶ the revised Remuneration Code, which comes into force for all firms from 1 July
- ▶ the EU's 'grand design' of linking the Mifid and Market Abuse reviews with the

rules relating to the on-exchange settlement of over-the-counter derivatives and the regulation of central securities clearing in order to avoid inconsistency.

The publication includes details of the FSA's own programme to improve investor protection through the RDR. It also features information about the FSA's suitability and complaints-handling guidance, and many other important changes in day-to-day regulation. Among these are the revived client asset form, new consultation guidance and the key investor information document for funds.

View the edition at cisi.org/regupdate

REUNION

Going off with a bang



The London Stock Exchange in the 1980s

A reunion to mark the 25th anniversary of 'Big Bang' is being held in aid of charity. It is hoped that hundreds of people who worked on the floor of the London Stock Exchange (LSE) at the time of the historic 1986 event will attend the event, which takes place at Drapers' Hall on Throgmorton Avenue in the City of London from 6.30pm to 8.30pm on Wednesday 26 October.

The reunion is being staged in aid of Mencap, Remedi - a learning disability charity that supports medical research in all aspects of rehabilitation and disability - and the London Stock Exchange Group Foundation, the channel for the LSE's charity giving.

The get-together is the idea of two CISI Fellows, Paul Fellerman and Simon Cowan, who spent many years working on the exchange floor as member dealers prior to Big Bang.

Paul, a Chartered FCSI, said: "This event will acknowledge what a great place the Stock Exchange was to work in the days when jobbers and brokers met on the trading floor, and how successful Big Bang has been for the City. With the CISI having emerged from the LSE, the reunion should be of interest to many Institute members."

Further information and invitations are available from Yasmin Kazi at Mencap: yasmin.kazi@mencap.org.uk, +44 (0)20 7696 5471.

Image: Getty

APPOINTMENT

New Director of Asia Pacific



Robert Cronin

Robert Cronin has been appointed as Director, Asia Pacific, of the CISI, to be based in Singapore.

Canadian-born Robert has extensive knowledge of the financial services

sector in Asia Pacific, a growing market for the CISI, having worked in Singapore for two years as Senior Relationship Manager for distribution at Templeton Asset Management.

He has gained more than 15 years' industry experience in senior business development roles with Templeton and, previously, Fidelity Investments. During his career, he has also worked in Toronto and Dubai.

Robert believes that the CISI is "well positioned" to meet strong demand in the region for internationally recognised development programmes that promote integrity and excellence.

INDUSTRY AWARD

S&I/R honoured

The *S&I/R* has received an Award of Excellence from the Institute of Internal Communication (IoIC).

The CISI magazine was honoured in the category of best UK publication for members at the IoIC 2011 awards.

QUALIFICATIONS



CISI Managing Director Ruth Martin and SCA Chief Executive Abdulla Al Turifi (seated, sixth and seventh from left) with successful candidates and award attendees

First graduates of new qualification in UAE

A first wave of 41 financial services professionals has graduated under a new mandatory qualifications programme in the United Arab Emirates (UAE).

The programme, introduced by the Securities and Commodities Authority (SCA), the UAE capital market regulator, has been developed, and is administered, in partnership with the CISI.

To meet the requirements of the licensing regime, candidates must pass at least three exams that are specified according to their jobs.

At a ceremony in Abu Dhabi, Abdulla Al Turifi, Chief Executive of SCA, and CISI Managing Director Ruth Martin presented certificates to the successful candidates.

Al Turifi thanked the CISI for its support in helping SCA in its drive to improve professional standards in the UAE.

He said: "I sincerely believe that the positive dividend of the SCA's initiation of this qualification programme for brokers and other workers in the financial services sector will begin to show clearly in the near future."

Ruth Martin said: "We are delighted to offer our congratulations to all these candidates. They have demonstrated their professionalism, many having combined the challenge of work and study."

"They are an inspiration to their colleagues and to others in the UAE financial services industry."

9 The number of CISI international advisory councils. They are in Bahrain, Cyprus, Gibraltar, Greece, India, Malta, Singapore, Switzerland and the UAE.



CHARITY

Cash for kids

Alan Biggar FCSI raised £70,000 for charity by driving around Britain in his vintage Morgan sports car.

The retired stockbroker, former Divisional Director of Brewin Dolphin in Edinburgh, covered 2,345 miles in two weeks. Of the money raised, 75% will help to improve care for young people with cancer in Scotland.

He completed his journey in Edinburgh where he was greeted by well-wishers including Michael Matheson, Scottish Parliament Minister for Public Health and the city's Lord and Lady Provost George and Elizabeth Grubb, pictured.

You can still make donations to Alan's appeal at forthone.com/charity/cash-for-kids-drive



ONLINE

BEST OF THE BLOGS

1 tinyurl.com/WSJ-TheGame

Dennis K Berman at the *Wall Street Journal* says that smaller annual cash payouts in the banking sector call into question "the grand bargain of investment banking". In the pre-crisis days, bankers would "work ungodly hours, fly halfway around the world at a moment's notice and kiss up to clients and superiors, all for the promise that they would retire rich in their 40s or early 50s". Now, he says, with so much of a banker's compensation at risk, the prospect of toiling deep into their 50s or even 60s is "very real". The surprise, comments Berman, is that this "has less to do with direct regulation of pay and more to do with the profitability of the business itself".

2 mergersandinquisitions.com/why-you-actually-work-so-much-as-an-investment-banker

Mergers & Inquisitions explains that the reason investment bankers work so much is because the "work demands are unpredictable and division of labour is near-impossible". Investment bankers have to respond to every client request "because they're not selling a product - they're selling their time and attention". Working on a mergers and acquisitions

deal, most of the work happens in the beginning and when the deal is coming to a close, says the blogger. The problem with hiring more people is that it's difficult to divide work on one client for two reasons: accountability and knowledge.

3 tinyurl.com/jezard

Adam Jezard notes in the *FT* that some mutuals offer more family-friendly and flexible approaches to careers, in contrast to the long-working-hours culture many bankers live with. A third of staff at Nationwide work fewer than 35 hours a week, and the company gives employees the automatic right to work until they are 75 on the same terms and conditions as staff working past 60, including private healthcare and life cover. It also offers two weeks' paternity leave on full pay, employment breaks for up to a year for staff with more than 12 months' service, and job sharing.

See page 12 for a full discussion of the pressures of working in financial services.

Do you have a blog recommendation?

Please send it to the Editor: louise.reip@wardour.co.uk



CLAY 'MUDLARK' HARRIS

Back story on Deepa Chandrasekhar ACSI of United Gulf Bank

Two lessons stand out from Deepa Chandrasekhar's career. Never fail to seize an opportunity – even one forced by circumstance – to add to your expertise. And the best way to repay the debt owed to mentors is to be one.

Deepa, Chief Compliance Officer at United Gulf Bank in Bahrain, had to move countries every time her husband, a senior retail banker, was transferred to a new post. Each time, she used her own job hunt to add a new skill.

She was already used to an itinerant life. When Deepa left secondary school in India, her mother was a visiting professor of space physics at the University of Alberta in Canada. So it was there that Deepa earned a BA in economics and an MBA.

Her career epiphany came when her finance professor took his students to Scotiabank's dealing room in Toronto. From that moment, she knew she wanted to work in that sector.

Although she could have worked in Canada, Deepa sensed a better chance to get on to the fast track in India. She joined Citibank's corporate foreign exchange department in Mumbai. "It was always my ambition that I should

work for a foreign bank," she says.

Her husband was then transferred to Bahrain. "That meant starting the job hunt all over again," she says. "I thought: I've worked in the front office. Now I'll try the back office."

She took the opportunity to learn about credit risk at Bahrain International Bank. When her husband was transferred to Lebanon, she joined Middle East Capital Group and developed a new area of expertise: internal audit.

Next came Dubai, where she worked for Rakbank, ultimately as Head of Risk, supervising its implementation of Basel II and the design and implementation of its operational risk database.

Then it was back to Bahrain, where she joined United Gulf Bank as Head of Compliance. Her mentor for 18 years, William Khouri, then CEO of UGB, told her: "You've done risk and audit, why don't you try compliance?" She views risk, audit and compliance as three sides of the same triangle.

She joined UGB before the collapse of Lehman Brothers. "Sometimes you need to be in the right place at the right time. The whole radar became focused on compliance and risk management."

Bahrain had become a centre for Islamic banking, and Deepa decided she needed to learn about it in depth to do her job properly. "You can't understand the risks if you don't understand the product." She found that the CISI's Islamic Finance Qualification helped.

Deepa says she "feels fortunate to have had great mentors", ranging from the Canadian professor who first exposed her to dealing rooms to William Khouri, who once said: "The real test of leadership is to see how many leaders you develop, not how many followers."

Deepa has joined the CISI Advisory Council in Bahrain, which helps steer the Institute's work in the Kingdom. She says: "I firmly believe that the process of learning never stops. It is a privilege and honour to be a member of the local CISI Advisory Council, which is committed to supporting the enhancement of the banking community in Bahrain."

She puts this creed into practice as a coach in the TradeQuest programme in Bahrain, where students compete in virtual portfolio trading. "If even one or two from a team of eight decides to pursue a financial career as a result, that would be great."



Deepa Chandrasekhar ACSI

Chief Compliance Officer, United Gulf Bank, Bahrain

Do you have a back office story?

mudlarklives@hotmail.co.uk

For further information on CISI activities in Bahrain, visit cisi.org/bahrain

Illustration: Luke Wilson

SURVEY

Outlook unclear for UK recovery

Only a quarter of financial services players (26%) feel that prospects for the UK economy are brighter than three months ago, a CISI survey reveals.

Of respondents, 39% believe that the health of the economy is unchanged, while 35% are less optimistic.

One contributor said: "Cost cutting by the Government has killed growth and put us back into recession. It must be curtailed before it carries us too far down the road that Ireland and Spain trod."

Another added: "The UK will have limited GDP growth over the next three to five years. I cannot see where the recovery will come from." A more upbeat view was: "The Government is dealing with the deficit and creating an environment that supports job creation."

To take part in the latest CISI survey, visit cisi.org



60-second interview

Alex Bustos, Chartered MCSI, President of the new CISI National Advisory Council (NAC) in Malta and European Compliance Director for AFEX Europe



Q How important to Malta is the financial services industry?

Financial services is becoming a cornerstone of the economy, accounting for about 12% of GDP. The sector has experienced tremendous growth and the Government's vision is to increase the industry's contribution to 25% of GDP by 2015. Malta's reputation as a fund domicile was established with its accession to the EU in 2004. Back then, only four hedge funds were based in Malta. Now, more than 400 investment services licences and 25 banking licences have been issued.

Q What are the main strengths of the sector?

A full member of the EU, Malta is strategically located, linking Europe with Africa. It has an English-speaking workforce (English is one of its official languages), a flexible regulatory approach, low business set-up costs and a competitive tax regime. For instance, Malta has one of the world's highest numbers of treaties with

other countries for the avoidance of double taxation on the same income.

Q What is the biggest challenge facing the industry?

Finding sufficient skilled professionals to satisfy its growing needs. The number of investment funds and hedge funds should increase considerably and there is a need to have more custodians to service assets.

Q The eurozone continues to struggle with financial instability. Does Malta regret becoming part of this group of 17 countries?

It's undeniable that being part of the eurozone currently presents several challenges. However, Malta was the last country in the eurozone to enter recession and the first one out of it. Its sound governance arrangements have moved forward at a steady but constant growth rate and with good management of debt and deficits. Achieving sustainable growth will require strategic fiscal consolidation and prudent risk management.



Ask the experts...

CATASTROPHE BONDS

An asset class that appeals to the insurance industry and investors searching for diversification

Low correlation, stable performance and an attractive risk/return profile sound like the characteristics of a non-existent asset class in the post-crisis environment. The good news, however, is that these qualities are typical of catastrophe bonds, which pay a coupon and return the principal at maturity in the absence of any specific natural catastrophe. They have been spurred on by an insurance industry looking for capital relief and investors searching for diversification.

Extreme natural catastrophes are rare but usually lead to huge insured damages. Until Hurricane Andrew in the US in 1992, insurers had hedged out the risk mainly by entering into traditional reinsurance contracts. Insurer – or reinsurer – sponsored catastrophe bonds have since become an additional weapon in their arsenal.

Catastrophe bonds can be loosely categorised according to their four trigger types, which determine when the bond will not, or only partially, repay its principal. The indemnity transaction type's trigger is set off by the sponsor's actual losses, meaning that, beyond a certain threshold of claims directly paid out by the sponsor, the bond defaults.

With industry index transactions, the trigger is set off by an industry-wide index of losses, based on the losses as reported by a number of insurance or reinsurance companies exposed to the same type of risk.

The two remaining trigger types are not

based on losses or claims, but rather on scientific measures. For instance, the trigger in a parametric transaction is set off by the actual reported physical event as measured by, for example, the windspeed for a hurricane or ground acceleration for an earthquake. Even more sophisticated are the modelled loss transactions, where the trigger is various catastrophe variables factored into a predetermined model.

Strong case for diversification

Given their low volatility and attractive returns, the inclusion of catastrophe bonds in a portfolio of traditional assets enhances its level of return against risk. The case for diversification is particularly strong given catastrophe bonds' loss profile. Indeed, their low correlation with traditional asset classes is mostly due to their main performance driver – extreme natural catastrophes – which by definition is not correlated to any macro-economic or financial event. Where the price of corporate bonds is mainly a function of the risk of default of the issuing company, the risk of a catastrophe bond is a function of the bond loss distribution over all possible catastrophe scenarios. These are forecasted using sophisticated modelling techniques and computed using a Monte-Carlo simulation, whereby multiple trial runs are performed using random variables. This 'default risk' for catastrophe bonds is summarised as the bond's expected loss, that is,

the average loss over all scenarios, expressed as a percentage of the principal amount.

From an insurer's perspective, given the remote possibility of an extreme natural catastrophe, a catastrophe bond is akin to a deeply out-of-the-money option. In terms of returns, this explains why insurers will pay an outsized premium compared with a bond's expected loss – hence a catastrophe bond's often attractive risk/return profile. Insurers are also happy to pay slightly higher catastrophe bond premiums to lock in their reinsurance costs over the bond's average maturity of three years. With the alternative of reinsurance contracts, they are renegotiated yearly, leaving room for cost variations in between.

The typical characteristics of this asset class, combined with its ability to reinvent itself through more robust structures, are making catastrophe bonds increasingly part of the mainstream investment world. While the market is getting larger, it is relatively small compared with the overall fixed income sector. Therefore, typical investors, such as Insurance-Linked Securities funds, have to deal with the challenge of identifying and sourcing the best assets within the catastrophe bond universe to build a portfolio with diversified exposure to catastrophes. Consequently, a strong market knowledge and network of catastrophe bond sponsors is essential.

Do you have a question on anything from tax to virtual trading? ✉ richard.mitchell@cisi.org

QUICK QUIZ

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Illustration: Cameron Law

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Q1 Which ONE of the following is the best definition of a future?

- A) An obligation to buy a given quantity of an asset on any date at a predetermined price
 B) An agreement to buy or sell a standard quantity of a specified asset on a fixed future date at a price agreed today
 C) An agreement to buy or sell a standard quantity of a specified asset on a fixed future date at a price agreed in the future
 D) An obligation to sell a given quantity of an asset on any date at a predetermined price

Q2 What is a likely effect of high inflation?

- A) Investors holding fixed income securities suffer
 B) Exports become more competitive
 C) Incomes that increase in line with inflation pay less tax
 D) Borrowers suffer

Q3 What is the maximum award the Financial Ombudsman Service can make?

- A) £100,000
 B) £150,000
 C) £250,000
 D) There is no maximum

Q4 Which ONE of the following categories is NOT regarded as a core service offered by private client firms?

- A) Advisory portfolio management
 B) Discretionary portfolio management
 C) Execution-only dealing
 D) Personal financial planning

Riding a short *recovery cycle*

A resurgent fear factor in the world's largest economy accounts for the rally in US treasuries as equities ease following the end of QE2

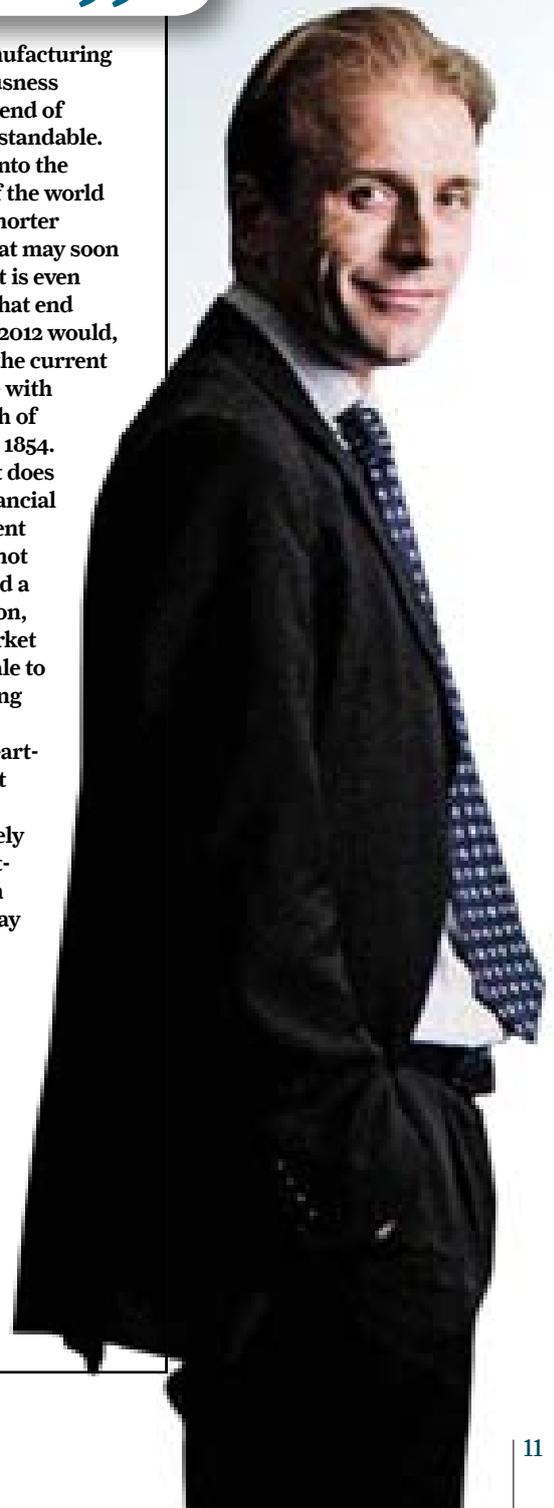
ALL OF a sudden, a wariness has crept into financial markets. Investors who dumped 'safe' US Treasury debt – in the hope that a recovering global economy, coupled with rising inflation and interest rates, would make risky assets a better bet – are hurting. They have missed out on an impressive bond rally. There has been a remarkable turnaround in the markets since the end of April. Stocks have struggled, runaway commodities have corrected and, while you may not feel it greatly on the garage forecourts, the wholesale price of gasoline – or petrol – fell more than 20% in May alone. The reason? Some believe investors have been pricing in the end of 'QE2', the Federal Reserve's huge \$600bn bond-buying programme that has pumped huge amounts of liquidity into the markets, kept interest rates low and made the dollar a cheap funding currency for the purchase of high-yielding risky assets. As I've mentioned before, there is a correlation between the Fed's buying and the upward march in the S&P 500, the benchmark US equity index. Remove the Fed prop and there are reasons to be cautious and to sell those assets that have benefited from the QE2 splurge, which was due to cease at the end of June. But that does not explain the rally in Treasuries. Take out the Fed as a buyer of US debt and they should fall. Other fundamental forces are at work, too: specifically, the fear, reminiscent of the deflationary scare of a year ago, that the US recovery has stumbled. The question now is whether a soft patch in growth will turn into

something more serious, like a double-dip recession. And it is that uncertainty that is the greater weight on investors' minds. Deutsche Bank strategist Jim Reid says the coming months may be crucial to understanding financial markets over the next few years. In a striking piece of analysis, he argues that the fragility of the recovery is such that it is likely to be shorter than previous ones starting in 1982, 1991 and 2001. Those three were the longest expansions on record. This time round, the prices of many commodities, even after their recent sell-off, are a good deal higher than normal at this stage of the cycle. Moreover, austerity measures to rein in burgeoning budget deficits in indebted European countries are now starting to bite. In the UK, for example, in the three full quarters of the new coalition Government, real output has risen just 0.7%. Here, higher taxes and public sector job losses are likely to keep growth in check. The US, meanwhile, which is yet to implement fiscal tightening, is experiencing one of its weakest post-World War II recoveries in nominal GDP, according to Deutsche. America's debt burden as a percentage of its GDP is staggering. Add up corporate, household, financial, government and other debt and it exceeds the 300% high during the 1930s. To bring that down will require the mother of all austerity packages or a supremely robust economic expansion that fills government coffers, which isn't going to happen. Throw in the recent run of disappointing economic data – on jobs,

“The coming months may be crucial to understanding financial markets over the next few years”

housing and manufacturing – and any nervousness surrounding the end of QE2 looks understandable. Buy into the Deutsche view of the world and we are in a shorter recovery cycle that may soon come to an end. It is even possible to date that end point: the end of 2012 would, statistically, put the current expansion in line with the median length of expansions since 1854. What does this mean for financial assets? The current 'soft patch' does not necessarily herald a slide into recession, less renewed market volatility on a scale to rival that following the collapse of Lehman. That heart-stopping moment of the crisis has passed. More likely is a grinding post-QE2 landscape in which equities stay rangebound and defensive stocks come to the fore. The adrenaline-charged rally on Wall Street that began in March 2009 may well have run its course. ■

Christopher Adams is the Financial Times' markets editor



Choose life

Working in the financial services sector is often associated with punishing hours, aggressive colleagues and unrelenting stress levels. **George Bull** asks whether some workers in the financial sector are paying too high a price in the search for higher incomes

STORIES OF NIGHTS spent sleeping in the office or out entertaining clients until dawn are not hard to come by in the City of London. But what is the real cost of long hours and stressful working environments on staff in the financial sector? A report from University College London, published in *Annals of Internal Medicine* earlier this year, tracked 7,000 civil servants since 1985. For people who work more than 11 hours a day, the risk of heart disease increases by 67%. The research echoes results of a pioneering study of 11,000 Americans, going back to 1987, published by a team at the University of Massachusetts Medical School in 2005. This found that, regardless of age, gender, type of industry and job, overtime workers were 61% more likely to get sick, while working at least 12 hours a day meant a 37% increase in illness or injury.

Role specifics

Neil Roden, Partner at PricewaterhouseCoopers (PwC) and, until January this year, Group HR Director at RBS, says that

stresses and hours in financial services differ significantly within the sector. “Those in retail banking branches or call centres typically work 35 to 40 hours a week with a whole plethora of flexible working arrangements available to them,” he says. “A firm like RBS would have huge numbers of people working part-time, job sharing and working from home – and I think the insurance industry would be similar in other segments.” Indeed, data compiled for the entire sector shows that relatively few of those working in financial services work very long hours when compared with other industries. A 2005 study by the Work Foundation, part of Lancaster University, looked at the percentage of workers by sector working more than 60 hours per week. For men, those in finance were third from bottom; for women they were fourth. Hotel and catering, agriculture, retail and public administration all appear to be far more taxing for both male and female employees, as the diagram shows. “But when you start talking about either investment banking or middle management, through to executive management, it becomes a different

Illustration: Izhar Cohen for Killington Arts

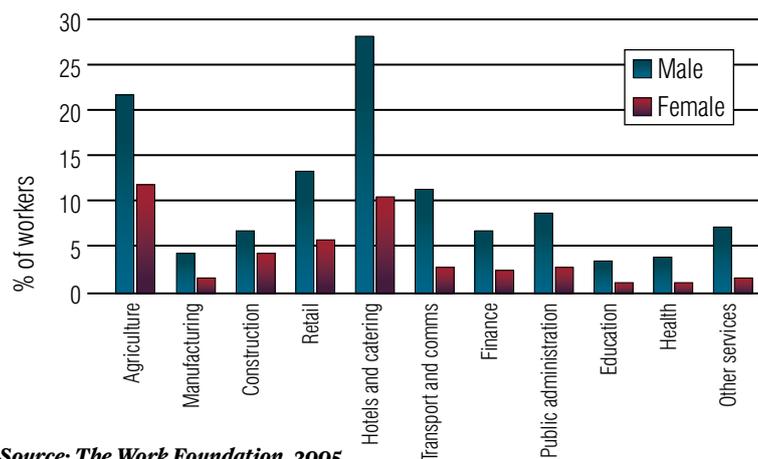


story,” says Roden. A typical proprietary trading role in the UK and FTSE markets, for example, would mean getting into the office at 6am to prepare before the market opens at 7am. When the market closes at 4.30pm, the employee’s day is finished and he or she can physically walk out the door, but the higher you go, the more intense it is and the more responsibilities there are. “It’s very pressurised and the opportunities for flexible working are less,” says Roden. Back-office functions will tend to start at 8am and work on to 6pm or 7pm. There are always busy periods and people are generally expected to work the hours required to accommodate the demands. The effect of the high demands of many banking roles has seen tangible moves by health insurers to mitigate the effects. Several firms in Switzerland last year began targeted efforts to reduce the costs associated with burnout among bankers. In May 2010, Swiss insurer Zurich Financial Services began offering 30% discounts for employees of banks and other corporate customers seeking the services of an approved psychologist; it expects the counselling resources to save it about 10m francs a year. Another firm, Baloise Holding, is planning to introduce client-health evaluations to combat the long periods of stress that leads to burnout. Meanwhile, UBS says that its efforts to prevent burnout in Switzerland include counselling and flexible work hours. But, while many finance firms publish employee-friendly employment policies, not all are applied fully. An inquiry by the Equality and Human

“Presenteeism is often used as a proxy for performance by managers”

Rights Commission into gender discrimination in financial services, published in September 2009, found considerable obstacles around maternity leave, for example. While most companies surveyed by the report had clearly specified maternity leave and pay policies, women’s experiences suggested that often these were not being upheld. One consequence of taking maternity leave was the reallocation of clients to other employees; these clients would often opt to remain with these employees when the women taking maternity leave had returned. A disproportionate part of bonus sums also often ended up with those who had taken over the clients.

Employees working more than 60 hours a week



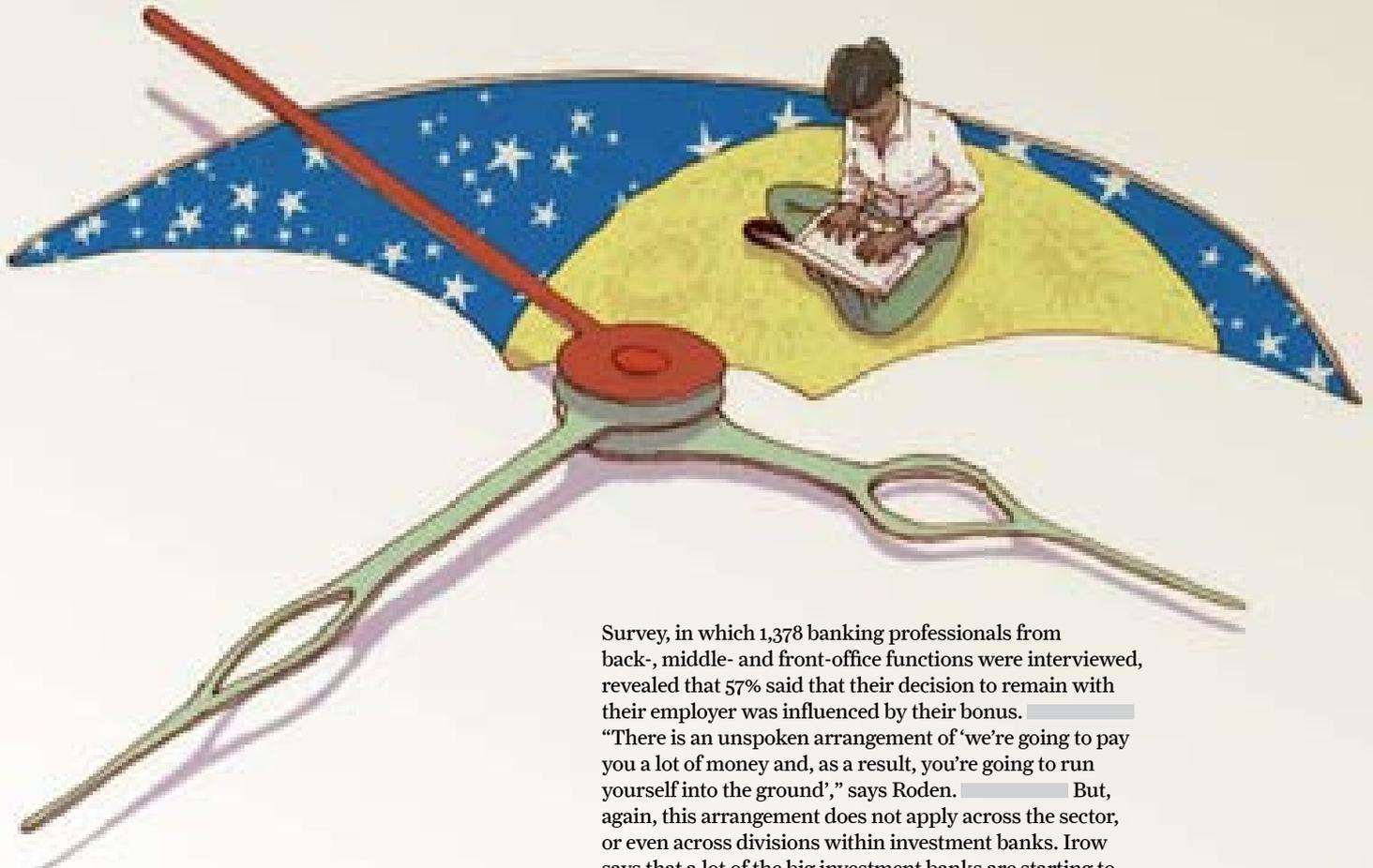
Source: The Work Foundation, 2005

Face time

The Equality and Human Rights Commission inquiry noted that “the ability to work long hours – or not – affects both pay and status, and presenteeism is often used as a proxy for performance by managers, according to a number of respondents.” But, in some parts of the City, ‘presenteeism’ has demonstrable commercial benefits. “There’s a measure of homogeneity in most broker or dealer services, especially now, given the quality of electronic transactions, therefore you are buying the measure of trust, and that involves face time,” says Keith O’Callaghan, Chief Financial Officer and Managing Partner of hedge fund FQS Capital’s UK office, who left Morgan Stanley ten years ago.

Nick Irow, Director at recruitment company Hays Financial Markets, agrees. “What you have to remember with brokers is that they earn on commission. Therefore it’s in their interest to put in the groundwork with a client. It’s a different story if being in the office at 6am every morning and staying until late won’t make a tangible difference to your salary,” he says. O’Callaghan says that there is a clear difference between a purely high-pressure environment and one that is challenging and facilitates success. “Personally, the way I like to manage things is fairly simple: you hire good people that you trust, you let them work and the quid pro quo is that you give them flexibility. You hope that you’re resourced enough that people finish on time and





have a good quality of life – having stressed employees is not good for business,” he says. It is easier to resource the back-office functions, where the roles are based more on structures and processes, but if you run a good organisation you build flexibility into it. “I’ve got four children, so I always try to step out of the office at 6pm to get home. I’ll probably log in remotely later on in the evening,” he explains. “Everybody in the office has set-ups at home so that they can leave on time but have the flexibility to work later from home if they have to.”

How the City compares

Professional services firms, such as accountants, lawyers and consultants, are often viewed as comparable in terms of the long hours and high pressure that staff face, and yet many consistently make the top 25 on lists of ‘the best companies to work for’. So what is it that they do differently? Companies such as PwC, which ranked number four in the *Sunday Times* Best Big Companies 2010 list, track employees who have not taken enough vacation and send reminders to them and their supervisors that they should do so. PwC research shows that a lot of people just want greater control over their work patterns, says Sarah Churchman, Director of Diversity and Engagement at the firm. “We know from employee satisfaction surveys that this is one of the things that people enjoy and I think that, when it isn’t there, it is one of the key reasons why people feel less engaged.” But compensation clearly remains a key motivation for employees, at least for now. Hays’ 2011 Bonus Satisfaction

Survey, in which 1,378 banking professionals from back-, middle- and front-office functions were interviewed, revealed that 57% said that their decision to remain with their employer was influenced by their bonus.

“There is an unspoken arrangement of ‘we’re going to pay you a lot of money and, as a result, you’re going to run yourself into the ground’,” says Roden. But, again, this arrangement does not apply across the sector, or even across divisions within investment banks. Irow says that a lot of the big investment banks are starting to promote a better work/life balance and flexible working opportunities, in the case of back-office roles, where the job can accommodate this. Clients are asking Hays to promote this when they are recruiting and Irow is seeing requests for flexible working coming from candidates looking to fill those roles. “Maybe ten years ago you wouldn’t have even had that chat with your boss,” he says. Even Roden suggests that the ‘unspoken arrangement’ may be challenged soon. As regulation makes it harder for investment banks to make money, and UK rules on pay standardise how banking staff are rewarded, pay practices may become more unified and it may become harder for firms to differentiate on compensation alone. He concludes: “If my hypothesis is right, the banks are going to have look at methods other than remuneration as a way of attracting and

“There is an unspoken arrangement of ‘we’re going to pay you a lot of money and, as a result, you’re going to run yourself into the ground’”

keeping people. The problem is, it’s more difficult to do.

[PwC] is not quite seeing this as a source of work just yet, but we are having enough conversations to indicate that people are worried about losing staff.”

The Chartered Institute for Securities & Investment

invited comments about the working culture of the sector, and the last word goes to two respondents. One said: “There seems little evidence of a flexible approach to workers, with ever-increasing demands and expectations.” Another concluded that employees should: “work smarter and not harder in order to deliver better results – both commercially for the financial sector and in terms of work–life balance for employees.” ■

*Does financial services offer a reasonable work–life balance?
Email Richard Mitchell at richard.mitchell@cisi.org*

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Wholesale

RE-REGULATION?

Despite widespread acceptance that bad practice in the wholesale sector precipitated the financial crisis, it is the retail market that has faced increasingly onerous qualification requirements since then.

Hugo Cox argues that it is time for mandatory qualifications to be reintroduced to the wholesale part of the industry

PRIOR TO 2005, wholesale professionals, like their colleagues in the retail sector, required a level 3 qualification for advisory work, discretionary management and the supervision of operational tasks such as settlement. But reform begun in that year saw the FSA remove mandatory qualification requirements for individuals working in the wholesale sector.

As well as abolishing minimum qualifications for wholesale practitioners, the UK regulator exempted these professionals from its Training and Competence (TC) rules. One proposal went so far as to remove wholesale employees from the FSA's approved persons regime (APER), but this was dropped following fierce resistance from the industry.

Although many larger wholesale firms continued to take exams voluntarily after the deregulation, the financial crisis exposed as flawed the FSA's reliance on self-policing in wholesale markets.

Retail focus

In the wake of the crisis, reform was aimed overwhelmingly at the retail sector. The Retail Distribution Review (RDR) has raised the level of retail qualifications: continuing professional development (CPD) will become mandatory for retail advisers, requiring an increase in standards for most retail investors, and the TC Sourcebook has been promoted to become a High-Level Standards rule book.

There was, however, no tightening of qualification requirements in the wholesale sector – putting it, in light of the 2005 re-regulation, far behind its retail colleagues. This leaves the FSA increasingly isolated relative to regulators in the US, Asia and most European countries, which observe equivalence between wholesale and retail sectors when it comes to regulation (see box). “The feeling is that, in the wholesale sector, you have so many bespoke and individual transactions that risk is created by their cumulative effect, rather than by individual transactions and those responsible for them,” says Mathew Rutter,

Financial Services Partner at Beachcroft in London. Tightening the APER is one way standards are being addressed. Those responsible for overseeing systems and controls functions, such as heads of IT, are now included in the regime. What's more, the role of non-executive directors (NEDS) is now much more clearly defined, with the requirement that they are sufficiently trained – especially in risk management and ethics. However, while training is mentioned for NEDs, qualifications are not.

“There is a strong argument that better training is needed following the financial crisis, but on the question of whether this is better achieved through in-house training or through qualifications, you can argue until the cows come home,” says Barbara Ridpath, Chief Executive of the International

“There is a strong argument that better training is needed following the financial crisis”

Centre for Financial Regulation. In the absence of mandatory wholesale qualifications, the FSA has increased the pressure on senior managers. Those who have a significant influencing function must take reasonable steps to see that there are competence assessment procedures in place for the individuals for whom he or she is responsible. “It is unlikely to be sufficient to rely upon other departments such as HR or compliance without checking,” says Christopher Bond, Chartered MCSI, senior adviser at the Chartered Institute of Securities & Investment (CISI). Policing competence is now up to firms' management: the FSA has expressly told wholesale and retail firms to focus on competence assessments and has expanded its definition of competence to include ethical behaviour, which is now

part of firms' remuneration policies. But the regulator has not taken the opportunity to include guidance about qualifications in talking about competence. It has neither defined competence, nor said that, in judging it, appropriate qualifications will be taken into account. It would seem to follow that someone can be competent in a high-level post, supervising large wholesale transactions worth hundreds of millions of pounds for which they need specialist skills, and have learned these entirely on the job. “Wholesale banks, which were largely to blame for the current crisis, now require a lower level of knowledge, no mandatory CPD and no requirement to adhere to a professional code of conduct as an ethical guide,” says CISI Chief Executive Simon Culhane, Chartered FCSI.

Prospects for reform

The FSA itself has accepted that it was a failure of self-regulation in the wholesale, not retail, sector that was the source of the financial crisis: both its Chief Executive Hector Sants FCSI(Hon) and Chairman Lord Turner have repeatedly said that it was the cultures of firms that failed. In June, the regulator went one step further. It acknowledged that the new Financial Conduct Authority (FCA) – previously the Consumer Protection and Markets Authority – which from next year will be responsible for regulating financial firms providing services to consumers, will also have regulatory oversight of the wholesale sector.

“The FCA will recognise that wholesale activities can have a direct impact on retail markets,” noted Margaret Cole, the FSA's Director of Enforcement and Financial Crime and interim Managing Director of the Conduct Business Unit, at the launch conference of the FCA in June. Her comments, which were supported by Hector Sants' speech to the conference, contain a clear acknowledgement that wholesale activities can have a direct impact on retail markets. She said: “The FCA will need to consider the interactions and linkages across the financial value chain where risks are transmitted between wholesale and retail customers.”

What will this mean in practice? Wholesale firms building products for retail markets will now be firmly under scrutiny by the new regulatory body, noted Cole: “Where activity in wholesale markets may,

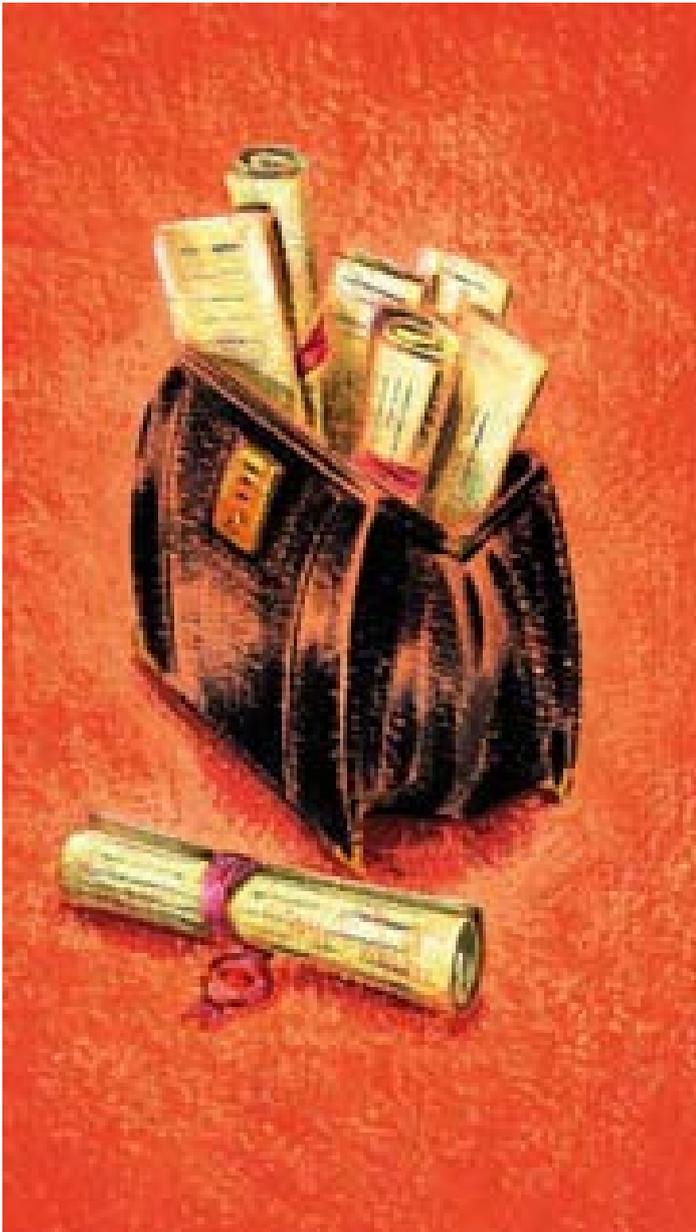


Illustration: Works

Qualifications beyond the UK

US

In the US, qualifications standards are administered by the Financial Industry Regulatory Authority, an industry group whose guidelines are approved by the US securities regulators – notably the Securities and Exchange Commission (SEC). “Qualifications are required regardless of whether the client base will be retail or wholesale: standards are the same,” says Philip McBride Johnson, former Chairman of the Commodity Futures Trading Commission, which is the US regulator of commodities markets.

When it comes to investment advice, the Investment Company Act requires firms to establish suitability standards for retail products; institutional products are, by and large, exempted from these. “But in neither case are the individuals selling these securities subject to the conduct rules,” says McBride Johnson.

There is a sticking point, however. The Dodd-Frank Act requires the SEC to extend the fiduciary responsibility required of those providing investment advice to be extended to wholesale brokers who sell securities without giving advice about them. Until now, brokers were required to meet a ‘suitability standard’, but this was a long way short of the fiduciary responsibility required of investment advisers. Congressman Barney Frank, who gave his name to the act, has recently expressed concerns over the appropriateness of forcing broker-dealers to the same standard.

Hong Kong

In Hong Kong, banks are regulated by the Hong Kong Monetary Authority and corporations by the Securities and Futures Commission. “Since the crisis, there has been a tightening of the licensing requirements, including greater scrutiny of conduct,” explains Matthias Feldmann, Partner at Clifford Chance in Hong Kong. “In both cases, there is no difference in the requirements made of those selling equivalent products and services to wholesale clients and those selling to retail,” he says.

France

France demands no specific qualification requirements in either the retail or wholesale sectors, explains Bruno Fatier in Clifford Chance’s Paris office: “There is a general principle that people working in a regulated entity, including those working in sectors like investment management, must show competence. But no distinction is made between the two sectors.”

by accident or by design, lead to misconceived, overly complicated or confusing products, aimed at the mass market, we will intervene.”

Will the FCA’s change of tack include reintroducing minimum qualifications for wholesale professionals? Only a week before Cole’s comments, an FSA spokesperson told the *S&IR*: “There are no plans for the FSA to review [qualification requirements] in the near future.” In order for the FSA to bring them back, he noted, “it would have to identify market failure, perform cost benefit analysis and then consult on those proposals.”

But Cole’s comments certainly prepare the way for a reform of wholesale qualification requirements. The FSA signalled the possibility of a change in its paper last December on competence and ethics (PS10/18). This noted that wholesale practitioners, who were not covered by the TC scheme, are nevertheless obliged to maintain their competence. If the FCA fails to effect reform, might a change come from the new suite of European supervisory authorities? There has been a sea change in the detail of the

EU-wide rules that are being made in Europe; competence requirements may become more detailed than the current high-level obligation under the Markets in Financial Instruments Directive (Mifid) on firms to employ competent staff. Although a direct mandatory qualification requirement is unlikely, the forthcoming European Commission review of Mifid may result in the reclassification of some clients as retail rather than professional (equivalent to wholesale), with a consequential qualification requirement in the UK.

Some firms – particularly larger ones – have taken the view that their wholesale staff should be appropriately qualified, and have continued to require their graduate entrants to take exams. Tighter policing of individuals by the FSA may also increase the appeal of qualifications. The FSA has stepped up the number of disciplinary cases brought against individuals, including some who lacked the necessary knowledge for their role and were incompetent; the regulator now believes action against individuals rather than firms has a greater deterrent effect.

Respondents to a recent discussion paper, notes the FSA spokesperson, suggested that there should be specific competence requirements for those who design products; the regulator will “continue to develop its thoughts on product intervention and take these responses into account”. Regulatory equivalence has a powerful logic behind it. For example, if fund managers design investment funds for retail investors, or investment managers design derivatives for retail funds, or professionals make transactions with pension funds of which you and I are members, shouldn’t they be bound by the same rules as those who deal directly with retail customers? “We accept that the retail and wholesale sectors are different,” Culhane concludes. “But the FSA should require the same minimum level of knowledge for both sides: surely those standards applying to the wholesale market should be at least as good as those standards operating for the retail sector.” With strong support from the industry, isn’t it now time for the FSA and the FCA to consider a review? ■

INDEPENDENT'S DAY

Hugo Cox talks to Alastair Clark, the Treasury's Senior Adviser for Financial Stability, about the crisis, the new regulatory regime and driving a Land Rover from London to Delhi

IT'S STILL GALLING to hear senior regulators admit that they knew about the catastrophic risks accumulating in the financial system prior to 2007, but failed to act on them.

“Many of the risks were identified but there was no effective action taken in response,” says Alastair Clark, Senior Adviser for Financial Stability to HM Treasury and member of the interim Financial Policy Committee (FPC). “The problem, frankly, was that the radar wasn't connected to the defence system.” In terms of the regulatory superstructure, no one was tasked or empowered to force firms taking on excessive risk to change their behaviour.

From 2003, Clarke was Adviser to the Governor of the Bank of England (BoE) on financial issues and the City, having previously been the Executive Director responsible for financial stability. He notes three key risks of which the BoE was aware before the crisis: heavy reliance of a number of institutions, including Northern Rock, on wholesale market funding; the extent of reliance on mathematical models that, many believed, might not be robust in periods of stress; and the implications of the so-called ‘search for yield’ – the alchemical new dawn claimed by financial engineers, where nominal returns were maintained or increased by taking on additional risk.

So why should we have any more confidence in the FPC meeting its brief to maintain financial stability than we had in the soon-to-be-disbanded FSA? The FPC, Clark responds, has an explicit responsibility to identify risk in the financial system as a whole. However, it will also – when the new Financial Services Act comes into force – have the power not just

to advise but also to instruct the regulators, specifically the Prudential Regulation Authority (PRA), the body responsible for the prudential supervision of UK-incorporated financial institutions. “So if the Committee feels that, say, leverage in the financial system is rising to dangerous levels, or if particular sectors such as commercial real estate are borrowing excessively, it will be able to instruct the PRA to act, for example by instructing individual firms to curb their borrowing by requiring that more capital be reserved against the loans.” Clark left the BoE in early 2007 but was asked by the Governor, Sir Mervyn King, to return later in the year to help with the response to the worsening financial crisis. There, alongside Paul Tucker, now Deputy Governor, Financial Stability, he masterminded the BoE's Special Liquidity Scheme. This was the 2008 deal that allowed banks to swap some of their assets – in total around £200bn – for Treasury bills, which made a significant contribution to securing the liquidity of the UK's major banks. But he accepts that as Adviser to the Governor on financial issues and the City from 2003 to 2007, the crisis developed partly on his watch. “All you can hope to be

able to say is that ‘we did our best in the circumstances and with the knowledge that we had’,” he says. “What's most upsetting is if you feel that you overlooked or misinterpreted something and that as a result your actions were ineffective.”

A responsibility to explain your decisions goes with any public policy function, Clark notes, and the financial crisis exposed the Treasury and the BoE to an unprecedented level of scrutiny. He is sanguine in the face of recent criticism by the Treasury Select Committee of his appointment to the FPC, which in July led the Chancellor George Osborne to say that Clark would not be a part of the statutory FPC when it is formed at the end of the year. After a hearing with him in June, the Select Committee noted: “Clark's long experience at the BoE and then at the Treasury means it is difficult not to regard him as an ‘insider’.” “I don't think that employment history is a good measure of potential independence,” he responds, “I think independence is more a function of individual character and attitude of mind.” But he concedes the importance of the perception; there are currently only three members of the FPC who don't work for the authorities – the Treasury, the BoE and the FSA. “It's hard to argue that someone who has spent their entire career at the BoE and the Treasury would be seen to be

independent in the way that was originally intended.”

Clark's career has been played out entirely in these two institutions. Leaving Cambridge University with a degree in maths, he went on the graduate interview round, including BP, Shell and British Airways, but gelled most with those he met at the BoE. The BoE was smart in

keeping its man: two years later it allowed Clark to study for a Master's degree in economics at the London School of Economics (LSE). “Following that, the Bank gave me three months to recover.” This he spent driving a Land Rover from London to Delhi and back. The vehicle remains in his garage – he is currently working on getting it back on the road – and the memories are still vivid. “I did much of the journey alone; it certainly built up self-confidence and self-reliance,” he explains, before recounting the weeks he spent stranded by the monsoon in the frontier area between Pakistan and Afghanistan. “One particular thing sticks in my mind: the western European environment I was familiar with existed only for the first 1,000 miles in the 6,000-mile journey to Delhi; the other 5,000 miles were very different!”

The stint at the LSE gave him some useful tools for economic and financial policy, which he combined with his quantitative skills. “I think my experience shows that you can acquire enough knowledge of economics even as a non-specialist to act in a policy function, a lot of which is about asking the right questions and making sure that someone else provides the answers,” he says. ■

“It's hard to argue that someone who has spent their entire career at the BoE and the Treasury would be seen to be independent”



CV snapshot

- 2011** – Member, Bank of England Financial Policy Committee
- 2009** – Senior Adviser, HM Treasury
- 2009** – CBE
- 2003** – Adviser to the Governor on the financial sector, Bank of England
- 1993** – Head, European Division, Bank of England
- 1991** – Non-Executive Director, Rolls-Royce
- 1983** – UK Alternate Executive Director, IMF, Bank of England
- 1974** – MSc in Economics, London School of Economics
- 1971** – Economics Department, Bank of England
- 1971** – MA in Mathematics, Emmanuel College, University of Cambridge

The Financial Policy Committee

Sitting alongside the Prudential Regulation Authority and the Financial Conduct Authority, the Financial Policy Committee (FPC) is one-third of the new Bank of England (BoE)-housed tripartite regulatory regime that will replace the FSA by 2012. It will contribute to the BoE's financial stability objective by identifying, monitoring, and taking action to remove or reduce systemic risks, partly via instructions to the other regulators.

The interim FPC, on which Clark sits and which had its first meeting in June, is engaged in preparing, in the words of the Government's consultation document, "the permanent body's toolkit by sharing its analysis and advice on macro-prudential instruments with the Treasury". This will enable the Government to decide exactly how to equip the FPC proper when it begins work in 2012.

Under pressure from the Treasury Select Committee, Chancellor George Osborne said in July that Clark would not sit on the statutory committee when it forms at the end of the year. It is intended that four of the 14 members of the interim FPC come from outside the BoE. One of these is still to be selected, following the announcement of Robert Jenkins (former Chairman of the Investment Management Association). He was appointed as an external member by the Treasury on 6 July, replacing Sir Richard Lambert (former CBI General Director) who resigned his post in May. The Treasury Select Committee wants the proportion of external members to be expanded.

"I wouldn't make a strong argument against having five, but I think it's more about having people who are knowledgeable, smart and regarded as having real experience," Clark says. "And the fact is, it's hard to find people who are sufficiently close to the sector who don't face a serious conflict of interest."

As the Greek debt crisis worsens, **James Gavin** identifies winners and losers from three of the options for its resolution: restructuring, default and euro exit

Letting go

GREECE'S DEBT CRISIS is the dominant economic narrative in Europe, threatening the eurozone as a viable economic bloc and undermining confidence in the continent's financial institutions. What are the prospects of avoiding a collapse? When the *S&I*R went to press, there was private sector support for a French initiative proposing that investors receive €30 in cash for every €100 in bonds maturing before mid-2014, as well as extending half of the debt maturing over this time into new 30-year bonds. German politicians, meanwhile, had started to push for a one-off swap of Greek sovereign debt for longer maturity bonds. Rating agencies are not convinced. Standard & Poor's declared

on 4 July that this was "a selective default", having earlier downgraded the country's debtor status on the assumption that feasible private-sector debt restructuring could only come via a default of this kind. If all major rating agencies – Standard & Poor's, Moody's and Fitch – declare Greece to be in default, the European Central Bank (ECB) will refuse Greek debt as collateral for its loans. The *S&I*R considers three options available to Greece.

Scenario 1: Greece muddles through

Canny use of the European Financial Stability Facility (EFSF), the emergency funding vehicle created last June by the European Union, could help if the current Franco-German deal is rejected. "The EFSF could be used to buy back Greek debt so that Greece technically avoids a default," says Gary Jenkins, Head of Fixed Income Research at Evolution Securities.

The problem is that the new deal looks

like just buying time – at vast expense. Even if Greece is able to avoid a restructuring until 2014, the economy is unlikely to be in a fundamentally better shape by then. Sooner or later, the conditions of the bailout package and the cost of servicing its debts will be too great. Better to wipe the slate clean now than in the future, says Ben May, an analyst at Capital Economics.

Should a harmonious restructuring of Greece's debt take place, the clear winners would be the banks in Greece and the rest of Europe: Greek banks hold €60bn of Greek sovereign debt; French banks hold €40bn. Politically, maintaining the status quo keeps the EU's dream of a unified currency on track. The immediate losers are Greek companies and citizens; it's hard to see how the economy could recover without the devaluation opportunities presented by a euro exit or the benefits of writing off large portions of the country's debt. "If Greece stays in the euro, the Greek public will have to suffer a huge amount of austerity to stay in an economic system that doesn't work for their economy," says Dr Tim Leunig, an economist at the London School of Economics. However, he believes that muddling through without an explicit default is also the most likely scenario in the wake of the Greek parliament's vote in late June to accept the austerity measures.

Scenario 2: Managed default

An orderly default, in which current debts are partly cancelled and partly restructured, might include provision from the EU to help recapitalise European banks that this has left in the lurch. Such a scenario would free the Greek government to achieve a primary budget surplus, allowing it to fund itself on a day-to-day basis, and could take place within the eurozone.

"This will be the best way to go eventually," says Prateek Datta, a credit analyst at RBS. "It's hard to see Greece getting through the crisis without any restructuring: it's a question of when and how."

The EU's current efforts may be designed to buy time, while Spain and Italy strengthen their balance



sheets in preparation for the big write-down. Italy, around which focus was gathering as the S&P went to press, remains vulnerable due to public debt of around 120% of GDP and the most sluggish GDP growth in the eurozone over the past decade. Spain, meanwhile, has committed to reduce its budget deficit to 6% of GDP this year from 9.2% in 2010. But, says Leunig, a form of managed default may not be possible for Greece. "Greek debt is 150% of GDP. Even if it only defaults on half of that amount, it would still be too high given the underlying uncompetitive structural nature of the Greek economy." But resisting orderly default now makes future disorderly default more likely: "This means substantial delays during which the Greek situation will have deteriorated; this will only make an orderly default harder to achieve," says Gabriel Stein, Director of Lombard Street Research. Under an orderly default, while Greek firms and the government enjoy partial debt relief and Greece remains in the eurozone, the holders of debt – notably European institutions, which hold €103bn of it – will take a big hit. "Another loser would be the ECB, which would have to retreat further, probably accepting euro area government bonds as collateral, even if junk and defaulted," says Stein.

Scenario 3: Disorderly default, Greece exits the euro

Disorderly default and euro exit threaten contagion for the rest of Europe, and would force the EU to step in quickly to shore up the region's entire banking sector. Countries whose banks hold large amounts of Greek debt would be pushed closer to crisis. Weakened countries would look doubly weak following major bank write-downs and a run on investor confidence.

If Greece is allowed to go to the wall, investors will reason, why should we have any confidence that bonds issued by Portugal, Ireland or even Spain will not be invalidated

If Greece is allowed to go to the wall, investors will reason, why should we have any confidence that bonds issued by Portugal, Ireland or even Spain will not be invalidated too?

too? This means that German bondholders may not do well out of a default: Germany may no longer be propping up the Greek economy, but if the entire eurozone is in jeopardy the country has much to lose. On 6 July, Moody's downgraded Portugal's debt to junk status because it decided that Portugal's bailout, totalling €78bn, was unlikely to succeed, and that Lisbon would not be fit to return to the markets to fund itself by 2013.

"We are on the verge of an economic collapse, which starts, let's say, in Greece, but it could easily spread," said investor George Soros at a panel discussion in Vienna in June.

Who holds Greek debt

Greece's total debt is about €340bn. Commercial banks hold 27%, and 43% is held by other investors including asset managers, sovereign wealth funds and foreign central banks. Citigroup estimates that the ECB's holdings are €50bn; Goldman Sachs calculates that Greek banks hold €60bn of the country's debt.

At the end of 2010, Greek government bonds held by banks in countries reporting to the Bank for International Settlements (BIS) totalled €38bn, 96% of which was owned by

European lenders. Germany and France alone accounted for 69% of the €38bn.

June figures from Bloomberg report the largest disclosed holdings of Greek government bonds by European banks, including BNP Paribas with €5bn, Dexia with €3.5bn, Commerzbank with €3bn, Société Générale with €2.7bn, ING with €2.4bn and Deutsche Bank with €1.6bn.

Of Greek sovereign debt, insurance companies hold €35bn, while pension funds and mutual funds hold about €55bn.

Consolidated foreign claims on Greek government and private sector debt (June 2011, €bn)

	Total	France	Germany	UK
Foreign claims ¹	103	40	24	10
Public sector debt	38	11	16	2
Bank debt	8	1	1	2

¹ Consolidated foreign claims and other potential exposures

Source: BIS

Sources: BIS, Bloomberg, Citigroup, Goldman Sachs, RBC Capital Markets (Bloomberg and BIS figures converted to euros at 12 June 2011 rate)

A disorderly default would be messy. But it appeals to many Greek politicians who may realise that they would be better off outside the eurozone, with the ability to devalue and at least hold out the prospect of some output growth: relocating to Greece will become attractive to manufacturers in core eurozone economies as Greek labour gets cheaper. However, the benefits of devaluation are limited: Greek exports are a relatively small share of GDP. Besides, in the short term, Greece's debt burden would become heavier because the new drachma would start out very weak. And if

disorderly default precipitates political chaos and collapse of the banking system, the costs will be huge.

For European banks and bondholders, a disorderly default would clearly be bad news. Their best hope would be for the EU to step in and state that some form of fiscal transfer would take place, under which it would agree

to pay Greece's debts and receive the country's tax revenue. Political chaos is one risk, but the long-term economic costs to Greece will be significant, too. Iceland defaulted and returned to debt markets within three years. Investors recognised that Iceland had defaulted out of necessity and are willing to buy its debt again. Greece would be different in that a disorderly default would be of their choosing and would come despite the high level of systemic support. "I'm not sure that investors would be as quick to forgive/trust Greece and to buy its debt that quickly, given that it would be an optional default," says Datta. ■

E-bonds: a solution

Greece's ongoing debt crisis has revived debate among policymakers about the necessity of formulating a more systemic response to sovereign fiscal crises; one suggestion is to launch European sovereign bonds – E-bonds – issued by a European Debt Agency (EDA) as a successor to those issued by the European Financial Stability Facility (EFSF).

Under the Juncker-Tremonti plan, named after Luxembourg's Prime Minister Jean-Claude Juncker and Italy's Finance and Economy Minister Giulio Tremonti, the EDA's mandate would fund the equivalent of 40% of the GDP of the EU and of each member state, including a switch between E-bonds and existing national bonds. Its two proponents say it provides clarity about a permanent mechanism to deal with debt restructuring. Governments would be granted access to sufficient resources, at the EDA's interest rate, to consolidate public finances without being exposed to short-term speculative attacks.

Would E-bonds solve the current problem in Greece? "It doesn't alter the underlying fact that Greece's existing stock of debt is still very large, and it doesn't really address the Greek economy's structural lack of competitiveness," says Dr Tim Leunig of the London School of Economics. But if the E-bond plan is the only means of preventing the break-up of the euro, it may yet receive greater traction.

Russia

ON THE RISE

There is good reason for investors to put Russia on their radar, says **Gregor Holek**

SAVE FOR A few exceptions, the equity markets of the emerging nations have shifted into reverse in recent months. They have lagged significantly behind those of the developed countries since the autumn of 2010. Only Russia is flexing its muscles. Last year alone, the MSCI Russia Index, which tracks the performance of Russian securities listed on Moscow's MICEX Stock Exchange, rose by nearly 30%, and there are plenty of indications that this positive trend will continue. While the Russian stock market couldn't escape the new wave of risk aversion in connection with the European sovereign crisis, the medium-term outlook is clearly positive. There are several reasons why the upward trend in prices in the majority of emerging markets has faltered recently. Probably the most important is simply the valuation levels that have now been reached. Since the lows experienced in November 2008, the emerging equity markets have risen by over 100%*. This represents a massive increase that can scarcely continue at this pace, and the equity valuations that have been attained must now be backed up by corresponding long-term earnings increases and continued growth. Despite the persistently positive long-term signs for the emerging markets, the current negative factors should not be underestimated. Examples include rising inflation, signs of economic overheating, interest rate hikes, higher oil prices and declining international competitiveness due to strong currency appreciation. In addition, the unrest in North Africa could increasingly draw investors' attention towards the political risks associated with investments in the emerging markets. Last, but not

least, the consequences of the disaster in Japan for the world economy will not leave the emerging markets unscathed. Despite these headwinds, the chances are fairly good that earnings growth will continue in the coming quarters, and the differentiation between individual countries, sectors and companies will likely persist, offering favourable conditions for active fund managers.

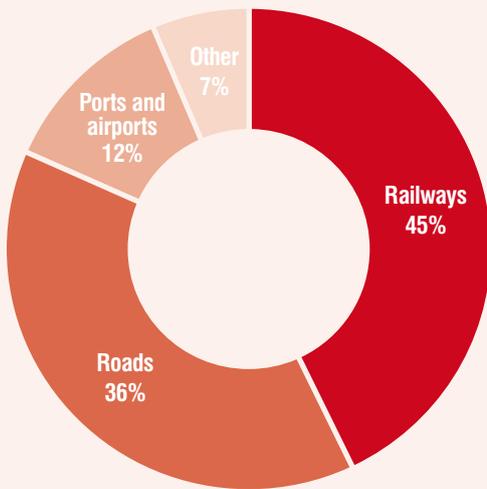
Profiting from high commodity prices

From the perspective of a bottom-up asset manager, Russian equities currently offer one of the best risk/return profiles of any emerging market. Added to this is the fact that several factors that are a burden on other emerging markets are actually supportive for Russia. Above all, higher commodity prices are, among other things, substantially improving the Government's financial leeway. The problem of rising grain prices and the resulting increase in inflation will likely be more manageable for Russia than for most other emerging markets thanks to its large expanses of arable land – provided that the country is not afflicted by another devastating drought. A significant factor in Russia's impressive performance is the



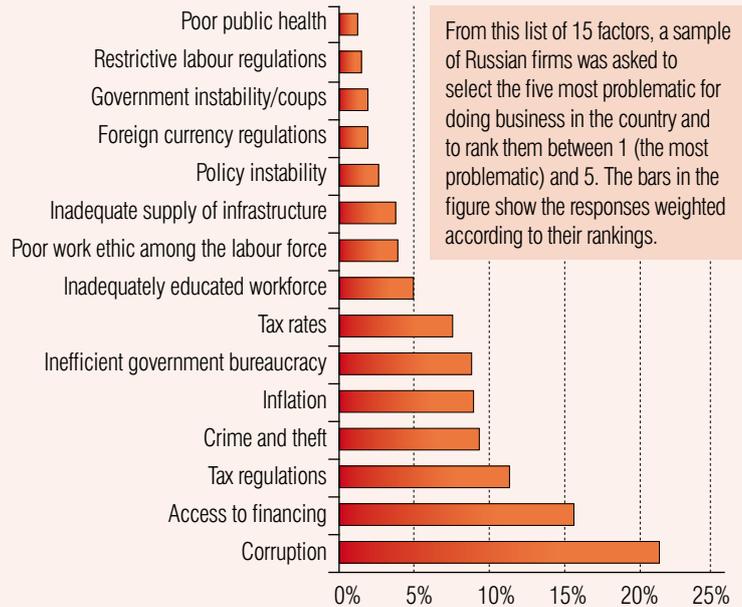
Infrastructure investments in Russia

Spending by segment, 2010–2015



Source: Ministry of Transportation, PMR, VTB Capital Research

The biggest problems facing business in Russia



Source: Troika Dialog, February 2011

global commodities boom: crude oil, natural gas, steel, coal and industrial metals are the essential raw materials that are at the centre of an emerging global competition that is getting fiercer and fiercer. And Russia is literally sitting on the source: with oil reserves of nearly 75,000m barrels, the country is among the world's top seven oil-producing countries. In addition, no other country in the world has more natural gas

purchasing power and consumer demand in the constantly growing middle class. Despite the country's still-high dependence on exports, these developments provide a broader foundation for Russia's economic recovery, which is now being supported by an increasingly robust domestic economy. Sectors that are profiting from this trend include the telecommunications and consumer goods industries, while the banking sector is also enjoying positive development.

The valuations of many Russian equities are among the most favourable in the world

deposits than Russia (which has nearly a quarter of the global reserves). There is no end in sight for the global demand for energy and raw materials, and Russia's reserves are nowhere near being exhausted. In addition to oil and gas, other sectors of the Russian economy have seen strong growth in recent years. One example is the mining industry: Russia has nearly 20% of the world's coal reserves, roughly 17% of the world's iron ore and almost 10% of the world's nickel.

Convergence process in infrastructure

The surpluses being generated – 46% of all Government revenues come from the oil and gas sector – are allowing Russia to carry out a convergence process in infrastructure, education and research, as well as the modernisation of its armed forces. Investment in the expansion and construction of roads, railway connections, airports, power grids and pipelines is being increased further in order to maintain the high economic growth rates. The Government's budget plan for 2010–2015 provides US\$386bn for infrastructure measures in the transport sector alone. In addition, major international events (such as the 2014 Winter Olympics in Sochi and the 2018 FIFA World Cup) are providing additional stimulus for the development of infrastructure.

Revenues from oil and gas exports and from the taxation of these raw materials in Russia have led to a dramatic rise in average incomes and, in turn, an increase in

Attractive valuations offer good earnings potential

The valuations of many Russian equities are among the most favourable in the world and, therefore, offer upside potential. A certain level of discount for political risks (corruption, government intervention, lower legal certainty, lack of transparency on the part of companies) will likely remain intact for the time being, but this could very well decrease in the future. In this context, it is worth noting that the parliamentary elections scheduled for December are not currently having any effect on the Russian financial markets. Russia is profiting considerably from the recent rise in prices for crude oil, as well as for metallic raw materials, steel and coal. These sectors currently offer a number of promising equities with attractive valuations, along with stocks that we believe to be too expensive at the moment. Excellent earnings potential is also offered by various smaller companies that have not entered into the sights of foreign investors to the same extent. ■

*MSCI Emerging Markets, +105% in EUR from 15 November 2008 to 31 May 2011.

View a presentation by Gregor Holek, 'Another BRIC in the Wall? The Recent Revival of the Russian Economy', at cisi.org/cisitiv

Gregor Holek

is Senior Fund Manager on the Emerging Markets Equities team at Raiffeisen Capital Management





Open AND honest

Questions to consider about the fairness
of payment protection insurance

READERS WILL BE familiar with the long-running saga of the inappropriate sale by banks and financial services companies of payment protection insurance (PPI) and the decision by sellers that they will stop contesting their responsibility for misselling and accept the consequent cost of reimbursement. Given the almost universal nature of the misselling and the fact that it will cost the banks billions of pounds, it is worth considering how such a widespread lapse of ethical judgment occurred and what might or, perhaps, should have been done to prevent it. That is not to say that all PPI sales

are, or were, unethical, but the sums involved do raise the question of whether there is an inherent fault in the way the industry works.

PPI was ostensibly designed to provide protection against increasing consumer loan losses, which were beginning to have a significant impact on profitability, and at the same time to provide a valuable source of non-interest income, which is the banks' holy grail, since it has no capital implications. However, it is inconceivable that any of the major players involved set out to deliberately design, market and sell a product that contained a significant number of features that made it inappropriate to be sold to the very people at whom it was aimed. Accordingly, it might be useful to consider the various steps that should have been taken against the Chartered Institute for Securities & Investment (CISI) four-question test of Openness, Honesty, Transparency and Fairness, between the supplier and the customer, when considering the 'ethics' of PPI sales. Although one might argue that questions should have been raised at board level, particularly once the amount of income earned became significant, it does not mean that, at a lower level, where the product was designed and where detailed knowledge of the various attributes of the product was decided, the same questions need not have been asked. Arguably, it was even more important because this was where the individual factors were built in and could have been modified. Once again, a failure to ensure that the product being promoted was

Open, Honest, Transparent and Fair suggests that this stage of the development process was lacking in integrity. It is also a fact that customers for whom the product was created were probably those most likely (possibly then, but probably no longer) to trust the banks to deal with them with integrity. Consequently, expecting those customers to read an insurance policy, understand its terms and conditions and challenge anything they did not accept or understand was fanciful, particularly if they received the impression that the offer of credit was dependent upon accepting the insurance. So, somewhere within the strata of bank management, implementation of a policy to sell a certain type of product became translated into sales targets, which were then imposed upon staff who were increasingly unlikely to challenge the product, the sales target, or how they could achieve it. Let us now consider the stages of the process against the CISI test.

Is the construction and distribution (sale) of the product Open, Honest, Transparent and Fair?

Question 1: Product design

A. Was the product design open? If one reads the insurance contract, it should tell a buyer exactly what they are getting, and the buyer will be provided with a copy. To that extent, it may be considered to be open.

B. Was it honest? A policy could not claim to offer something that it does not and so, to that extent, it must be judged to be honest.

C. Was it transparent? Perhaps there is some doubt about this. Insurance policy wording may not be simple to follow, unless you read what is written very carefully. Many people never read the terms of products or services that they buy.

D. Was it fair? This is also, perhaps, a subjective judgment. If the purchaser reads the terms and understands them before buying, then it would be difficult to say that it was unfair.

Clearly, the regulatory authorities felt that the sales process was unfair

However, if the purchase of the policy, which is of no obvious benefit to the customer, is a requirement for the acceptance of another product or service, then there is a strong case for saying that it is unfair.

Question 2: Sales process

This is an area that is open to abuse, either deliberately or, possibly, as a result of a decision at a higher level that the sale of the product or service is a key objective. The higher-level decision to target a product for sale may easily be interpreted so that such constraints, as are usually in place, are swept aside in pursuit of a sales target, particularly if there are rewards associated with meeting the target.

Using the same four tests:

A. Was the sales process open? Were the borrowers offered credit subject to buying PPI and were they given time to decide?

B. Was it honest? Did the sales person/adviser understand the drawbacks as well as the benefits of the product that they were offering and did they explain the terms and discuss these with the customer to enable them to make an informed decision?

C. Was it transparent? If the customer showed any hesitation, how did the salesperson react? Did they make it clear that buying the insurance was entirely a decision for the customer and that acceptance of the loan was not related to the purchase of PPI?

D. Was it fair? The answer here is going to be influenced by the answers to A, B and C. If the answer to any of these is NO, then it would be difficult to argue that the sales process was fair. Clearly, the regulatory authorities (and the courts) felt that the sales process was unfair and that unfair pressure was put on customers to purchase a product that was unsuitable for their needs. But, given the widespread nature of the sale of PPI, is it reasonable to suggest that the thousands of staff involved in its sale are all unethical?

Question 3: Claims process

In the event of a policyholder having to make a claim:

A. Was the process open? Is the process straightforward or are there unreasonable conditions imposed before a claim can be submitted?

B. Was the claim accepted and handled honestly, in terms of the policy?

C. Was the customer made fully aware of all that was happening and why?

D. Did the customer feel that they had been taken advantage of?

It was at this point that many of the original claimants discovered that what they had been paying for did not give them the protection that they had believed they were buying, leading to complaints to the banks and the Financial Ombudsman Service.

Conclusion

If one considers this industry-wide debacle against an organisation demonstrating its integrity through 'tone from the top', a charitable interpretation would be that the PPI policy was agreed with the best of intentions. However, the inadequate processes between the decision to offer the product and implementation of the sales process demonstrate that tone from the top goes only so far if matters are allowed to go so badly awry. Additionally, the fact that the matter was allowed to fester for so long might be taken as a criticism against this measure. Openness, honesty, transparency and fairness are considerations that can be applied by all of us at every level; all the more so when we require more junior staff to implement the consequence of decisions made by other people, but particularly by us. We should ensure that we do not expect other people to do things that we think lack integrity. ■

Handle with the utmost discretion

THE VERDICT

A firm of discretionary fund managers, Iccicle, decides to buy a specific stock for its clients' portfolios but by mistake purchases a similarly named stock. The performance of both stocks is positive, but that of the stock purchased is not as good as that of the chosen one. Since this is a discretionary mandate, how should Iccicle deal with this?

This was a dilemma posted in the May S&I/R. Readers were invited to vote in a poll on the CISI website for the course of action they would take, choosing from four options.

The CISI response:

While, inevitably, mistakes do happen, how one reacts and responds must be the primary consideration. Learning the appropriate lessons is a valuable additional consideration.

Iccicle made a mistake to the detriment of its customers. In considering whether to compensate them, it is irrelevant that customers were unaware. Option 2, to compensate customers, giving them a full explanation, was chosen by the majority of respondents (60%) and is the most ethical response.

Option 1, to top up customers' funds without making them aware of what has happened (selected by 3%), suggests that you feel that you have something to hide. In which case, how ethical is that course of action?

The second most popular response (option 4), suggested by 33% of respondents, was to report the matter to the FSA before taking action. Other than to provide an illusory sense of self-protection, the reason for doing this is not obvious, since the most important step is to put the mistake right. Involving the FSA, particularly before remedying the situation, does not appear either beneficial or necessary. Nevertheless, to carry out an audit of operational procedures must be a key remedial action in order to understand how the mistake occurred, remained unnoticed and to determine the actions necessary to prevent a recurrence.

Doing nothing, option 3, would not be considered as acting with integrity and was favoured by only 4% of respondents.

Although compensation, plus an operational audit, was not offered as an option, both steps are necessary. It is surprising that, of the readers who left comments, only one person suggested that this was the most appropriate response.

An unspoken question remains. How would you react if the erroneous purchase had resulted in a larger profit than that generated by the 'correct' one?

Need to Read

The latest publications and study aids supporting CISI qualifications

TWO NEW WORKBOOK EDITIONS



Investment Advice Diploma (level 4)

The Retail Distribution Review and the introduction of level 4 qualifications will affect the CISI exams available for both the wholesale and retail sectors. The following level 4 new workbook editions are due out shortly, as part of the Investment Advice Diploma programme:

- FSA Regulation and Professional Integrity (covering exams from 10 November 2011)
- Investment, Risk & Taxation (covering exams from 31 October 2011).

Existing level 3 qualifications will remain alongside those at level 4 for the foreseeable future, particularly to support institutional clients while changes to the portfolio of retail qualifications take place.

Price: £75 each



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quickly and efficiently. The 'add to basket' facility allows you to see at a glance what you are buying, and there is information on what each product covers and the exams to which it applies. The 'checkout' facility is easy to use and secure.

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Wealth Management

The CISI's Wealth Management qualification is the first career pathway to be launched as part of the Institute's new Masters Programme (CISIM). The CISIM (Wealth Management) has

allowed the CISI to blend together aspects from existing Diploma modules into a package that offers wealth management firms and practitioners a dedicated professional qualification. The programme comprises three units:

- Applied Wealth Management
- Portfolio Construction Theory in Wealth Management
- Financial Markets.

Workbooks for each of these three units are out now.

Price: £150 each

NEW WORKBOOK EDITION



Principles of Financial Regulation

The Principles of Financial Regulation unit is part of both the Investment Operations Certificate, also known as the Investment Administration Qualification, and the Certificate programme. Its aim

is to ensure that candidates have an understanding of the regulations and legislation that underpin financial markets and the conduct of investment business more appropriate to the wholesale sector.

A new edition of the Principles of Financial Regulation workbook (valid for exams from 21 December 2011) is due out shortly and will cover:

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- the Financial Services and Markets Act 2000
- associated legislation and regulation
- FSA Conduct of Business Sourcebook/Client Assets Sourcebook.

Price: £75

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The product now consists of more than 30 modules, including:

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OTHER READING

Securitization and Structured Finance Post Credit Crunch



Structured finance bonds are often viewed as complex and opaque. Traditionally, most people working in this area have had a narrow focus on a specific part of the securitisation value chain. Author Markus Krebsz, Chartered MCSI, makes it clear that, for the market to succeed, it is crucial that all participants take a broader view and understand every part of the transaction process. He introduces generic best practice principles for a post-credit-crunch market, applying these

across all typical lifecycle stages of a generic deal.

As a CISI member, you can save 30% on this book, normally priced at £60, and a selection of other guides to finance and investing published by John Wiley & Sons in partnership with the CISI. To secure the discount, visit wiley.com/go/cisi and enter the promotional code V9276 when making your purchase.

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The CISI relies on industry practitioners to offer their knowledge and expertise to help create and maintain its exams, workbooks and elearning products. There are several types of specialists: authors and reviewers for workbooks and elearning products, item (question) writers, item editors and exam panel members. All of them receive a number of benefits to thank them for their involvement.

There are currently about 300 external specialists who have volunteered to give their time, knowledge and experience to assist the Institute's Qualifications team, but more are required.

The CISI would particularly welcome applications from specialists to assist with developing the Global Securities Operations and Derivatives exams, as well as authors and reviewers for its elearning products.

If you are interested in helping the CISI with this important aspect of its work, please contact Iain Worman on +44 (0)20 7645 0609 or download the application form from the link below:

cisi.org/externalspecialists

Diary

Events to attend over the coming months



Conferences

Tuesday 11 October Compliance Professionals Summit

America Square Conference Centre, London

CISI members can attend this conference at the special price of £200 (non-members £400). For further details, visit cisi.org, call +44 (0)20 7645 0680 or email clientservices@cisi.org



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3 AUGUST Golf Day

Manchester & District
Hale Golf Course, Rappax Road, Hale, Altrincham

8 SEPTEMBER Annual Awards Night and Dinner

Scotland
The George Hotel, George Street, Edinburgh
(Guest speaker: Bill Jamieson, Executive Editor, *The Scotsman*)

15 SEPTEMBER RDR Seminar

Guernsey
The Old Government Hotel, St. Anne's Place, St. Peter Port, Guernsey

16 SEPTEMBER Golf Day

Birmingham & West Midlands
Kings Norton Golf Club, Brockhill Lane, Weatheroak, Alvechurch, Birmingham

6 OCTOBER Annual Dinner

Manchester & District
Radisson Edwardian Manchester, Free Trade Hall, Peter Street, Manchester

14 OCTOBER Annual Dinner

Isle of Man
Mount Murray Hotel & Country Club, Mount Murray Road, Santon

17 NOVEMBER Annual Dinner

West Country
Exeter Golf and Country Club, Countess Wear, Exeter

18 NOVEMBER Annual Dinner

South Coast
Hallmark Hotel, Durley Chine Road, Bournemouth
(Guest speaker: Michael Portillo, broadcaster and former MP)

To book:

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Member and Fellow discounts

Professional courses discount: Fellows 35%; Members 30%; Associates 20%.

Extra professional courses discount: make two bookings together and get a 10% discount; three bookings together, a 15% discount; four or more bookings together, a 20% discount.

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Professional Courses

Venue: London unless otherwise stated

2/3 AUGUST Derivatives* £895.00

16 AUGUST Investment Principles & Risk (PCIAM)* (half day) £295.00

16 AUGUST Investment Principles & Risk (IAC)* £495.00

16/17 AUGUST Investment Principles & Risk (LSE)* £895.00

7 SEPTEMBER Integrity and Trust in Financial Services, half-day £295.00

8 SEPTEMBER Introduction to Financial Markets £495.00

13 SEPTEMBER Operational Risk: Taking it to the Next Level £495.00

20 SEPTEMBER Securities* £495.00

27 SEPTEMBER Training Competence and Managing Expertise in a Regulated Environment £495.00

29 SEPTEMBER Pensions & Retirement Planning* (Birmingham) £495.00

5/6 OCTOBER Derivatives* £900.00

12 OCTOBER Pensions and Retirement Planning* (Edinburgh) £500.00

13/14 OCTOBER Understanding Regulation & Compliance £900.00

19 OCTOBER Investment Principles & Risk (PCIAM)* £300.00

19 OCTOBER Investment Principles & Risk (IAC)* £500.00

19/20 OCTOBER Investment Principles & Risk (LSE)* £900.00

27 OCTOBER Mastering Communications Skills in Financial Services £500.00

*This event fulfils the requirements for qualifications top-up to fill gaps between existing CISI exams and the new Retail Distribution Review exam standards

ANNUAL DINNER

Right on cue

John Parrott, left, with Glyn Edwards, Chartered MCSI, President of the CISI's Liverpool & North Wales branch



Cancer care pocketed a boost when former world snooker champion John Parrott MBE starred as guest speaker at the annual dinner of the CISI's Liverpool & North Wales branch.

About 80 guests attended the event at the Crowne Plaza Liverpool Hotel and a raffle raised £975 for locally based Clatterbridge Cancer Research. Top prize in the

raffle was a snooker cue signed by John Parrott.

An update on branch activities was given by Regional President Glyn Edwards, Chartered MCSI. Richard Bennett, CISI Regional Director, highlighted the latest benefits for members, including CISI TV. It allows members to view a selection of the CISI's most popular professional development events online while earning CPD hours. The event was sponsored by Investec, Ballie Gifford, Proquote, M&G Investments and Henderson and AXA Investment Managers.

SELECT BENEFITS

Deals for drivers

Drive down your motoring costs thanks to Select Benefits, the package of exclusive deals for CISI members.

Insurance: You can save 15%* on your car insurance renewal quote with Baxters Streetwise, without compromising on cover or service. Insurance partners include brands such as Equity, AXA, RSA and Zurich.

Maintenance and repairs: Vehicle Servicing Manager (VSM) uses the UK's largest network of independent garages to deliver average savings of 30% on all your car servicing and repair requirements. With VSM, you can also save 20% on the cost of your next MOT.*



For more information on how to obtain these deals and other savings, visit cisi.org/memberlogin

*Terms and conditions apply. See the website for further details. Not available in Northern Ireland. Subject to underwriting. The insurers mentioned represent a panel of insurer partners that supply Baxters Streetwise insurance products; they cannot guarantee which insurer partner will supply your policy; subject to change.

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Professional interest forums

Find out about the latest developments in IT



Brian McNulty MCSI

Why not join the 170 members of the CISI IT forum? Members of the forum meet quarterly in central London to discuss topical issues and network. Attendance is free and earns members 'active' hours under the CISI CPD Scheme.

All meetings are conducted under the Chatham House rule to facilitate open discussion and the sharing of any concerns. They are planned by members for members, with a committee of practitioners meeting regularly to let the CISI know the issues affecting them and the speakers they would like to hear from. This helps the Institute to ensure that events remain as relevant as possible for members.

Brian McNulty MCSI, who chairs the

forum, said: "We welcome CISI members irrespective of their level of technical knowledge. Discussions are designed to benefit attendees by helping them to understand the latest technological developments and their impact on the investment industry."

If you missed out on recent events, you can view slides from them in the PIF Archive, located in the members' area of the CISI website. You can also log 'self-directed' hours under the CISI CPD scheme for time spent reviewing presentations.

To ensure you are invited to future events, email itforum@cisi.org to sign up to the forum's mailing list. Becoming a member of the forum is free for all CISI Fellows, Members, Associates and Affiliates. Students may attend one forum event per year.

The CISI's professional interest forum (PIF) programme is a free CPD benefit for CISI members. There are currently seven PIFs, which cover the areas of compliance, corporate finance, Islamic finance, IT, operations, risk and wealth management.

Forthcoming meetings include:

6 September – Corporate Finance Forum
15 September – Risk Forum

21 September – Compliance Forum
27 September – Wealth Management Forum

In addition, the corporate finance forum's annual dinner is being held on 28 September.

More information on the PIF programme and all forthcoming events can be found at cisi.org/pifs

Membership admissions and upgrades

MCSI

A Plan Insurance

Karen Whitehead

Adam & Co

Michael Gore

Edmund Harvey-

Jamieson

Anderson Strathern

Diana Hofmann

Aviva

Trevor Parker

Baillie Gifford

Lisa Mullaniff

BAM Export

Balasuriya Udaya Rajeeva

Bank of America

Continuum

Sumantra Sen

Bank of America Merrill

Lynch

Anthony Ayoola

Barclaycard

Robert Metcalf

Barclays Capital

Xiang Li

Beach Street

Paul Barnes

Berenberg Bank

Anthony Hervey

Bestinvest

Duncan Scott

William Scott

Bill Warren Compliance

William Warren

BlackRock

Ray Nairn

BNP Paribas

Alan Anderson

Jennifer Kulesza

Jean McMillan

BP Marsh

Daniel Topping

Brewin Dolphin

Roderick Fraser

Tina Robinson

Thomas Sain

Robert Skepper

Bright Grey & Scottish

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Wendy Crawford

Broadstone

Kevin Farrell

Brooks Macdonald

Katie Amos

David Rose

Brunsdon

Robert Lowe

Caledonia

John Forbes

Caledonian

Raymond Langham

Capita Hartshead

Teodora Harrop

Castle Consulting

Michael Fullepa

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Heather Lamont

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Robert Tannahill

Cerno

Phillip Hyett

Yan Zhu

Charles Stanley

Robert Baxter

Andrew Dyson

Chenavari

Gurmail Uppal

Citibank

Mark Adogah

Citigroup

Arunakkumar Narayanan

Clarke Willmott

Paul Quinnen

Close

Geoffrey Gillott

Cobra

Andrew Clark

Collins Stewart

Alison Brooks

Piers Cavill

Robert Morris

Co-operative

Abigail Herron

Coutts & Co

Andrew Baty

Stephen Williams

Credit Agricole

Steven Boulton

Cunningham Coates

Ciaran Preshur

Deloitte

Soma Datta

Deutsche Bank

Adam Turner

DPZ

Simon Beal

Duncan Lawrie

Peter Connop

Hilary Peterson

Edwards Securities

Craig Harper

Equiom

Peter Shefford

Euro Consult

Kevin Browne

Fairbairn Private Bank

Julia Warrander

Financial Services

Authority

Christopher Blake

FuturesTechs

Clive Lambert

GAM

David Bing Baylis

Gartmore

David Young

Grant Thornton

Patrick Storey

Hargreave Hale

Gareth Deacon

Harischandra Mills

Bentara Jinadasa

HSBC

Lara Gentles

Kurien Korah

Zahid Nawaz

Wing Shan So

IFA-ASIA

Ricky Matthews

IFAct

Charles Meade-King

IM Wealth

Bill Stanworth

Information Mosaic

Jane Colgan

Interactive

Douglas Boyce

Investec Bank

James Walker

Isle of Man Finance

Gillian Prestwich

Jersey Financial

Services Commission

Peter Scriven

Jupiter

Ross Bridger

Kate Madocks Wright

Killik & Co

Thomas Fagg

Alex Spreckley

Kreis

Susan McGinty

Legal & General

Kara Hynes

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Linda Bell

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Laurence O'Mara

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Paul Crake

Marsh

Gary Friend

Moneywise

Pankaj Adatia

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Peter Barradell

Nexus

Reza Nader-Sepahi

Nomura

Andrew Chiles

Northern Bank

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Driving AMBITION

Philip Churchill ACSI enjoys life in the fast lane, indulging his love of motor racing.
Lora Benson reports



Philip Churchill with his yellow 1971 MGB



Philip Churchill
ACSI

HE MAY BE a relative newcomer to the dynamic world of motorsport, but Philip Churchill is proving a natural. Last year was Philip's first full season competing in the MG Owners' Club (MGOC) Championship and he was awarded the title

of its most improved driver. "I'm still a novice, having competed in only about 20 races, but I've had a few top-three finishes and my next ambition is to get a win in my class."

Philip's exploits behind the wheel contrast with his job as a specialist in Islamic real estate investment, an area in which he has worked for ten years. He is Head of Real Estate and Asset Finance at Gatehouse Bank in London.

His racecar is a 1971 yellow MGB that he snapped up three years ago for £4,500.

Philip said: "This car has enabled me to combine a love of classic cars with my motor racing bug. Over the years it had been rebuilt, including a new engine and shell, so there was little I had to do to it." He is up against about 20 MGs of similar specification in each race and a big thrill is that the championship takes in most of the UK's leading circuits, including Silverstone and Brands Hatch.

"It's great to compete on tracks

used for Formula One. However, my favourite circuit is Oulton Park in Cheshire, which is very undulating with challenging corners."

Philip's car reaches speeds of about 85mph and, he admits, driving conditions can get "pretty frantic" on a crowded track.

"You need to be able to keep your head as well as your nerve during the pressure of the race." The risks of motor racing were underlined for Philip in the second race of the current season, at Brands Hatch, when

"You need to be able to keep your head as well as your nerve during the pressure of the race"

he suffered an accident. "I was hit coming out of a hairpin bend and pushed into the safety tyres at the side of the track, causing quite a bit of damage to the car and a return to the paddock on a low-loader. I was unhurt but it was not ideal, when my wife and two young sons had chosen this event to come and watch me and I had to miss two races while the car was repaired." For anyone interested in taking up motor racing, Philip suggests that following his route into the MGOC Championship is an

attractive option. "It's financially viable, as the championship prohibits owners from making expensive modifications to their vehicles, with the only outlay being to meet essential safety requirements needed to race an MG." To enter the sport, drivers must complete the Novice Driver Training Course, run by the Association of Racing Drivers School, which is known as the ARDS test.

"As with a normal driving test, this includes a theory test followed by time on the track to make sure that you won't be a danger to yourself or to others," says Philip.

His hobby is a great talking point, as was witnessed at a recent business meeting. Philip says: "I was discussing our products with a Bahrain-based financial institution and, having spent a great part of the meeting saying

how we did all we could to reduce the risks of investing in real estate, they asked what I was doing at the weekend. Sharing with them that I was motor racing, they declared 'oh, so you do take risks', to which I responded 'Only at the weekend!'" For further information, visit mgoc-championship.co.uk ■

Got an interesting hobby? Contact Lora Benson with your story at lora.benson@cisi.org. If it is published, you will receive £25 of shopping vouchers.

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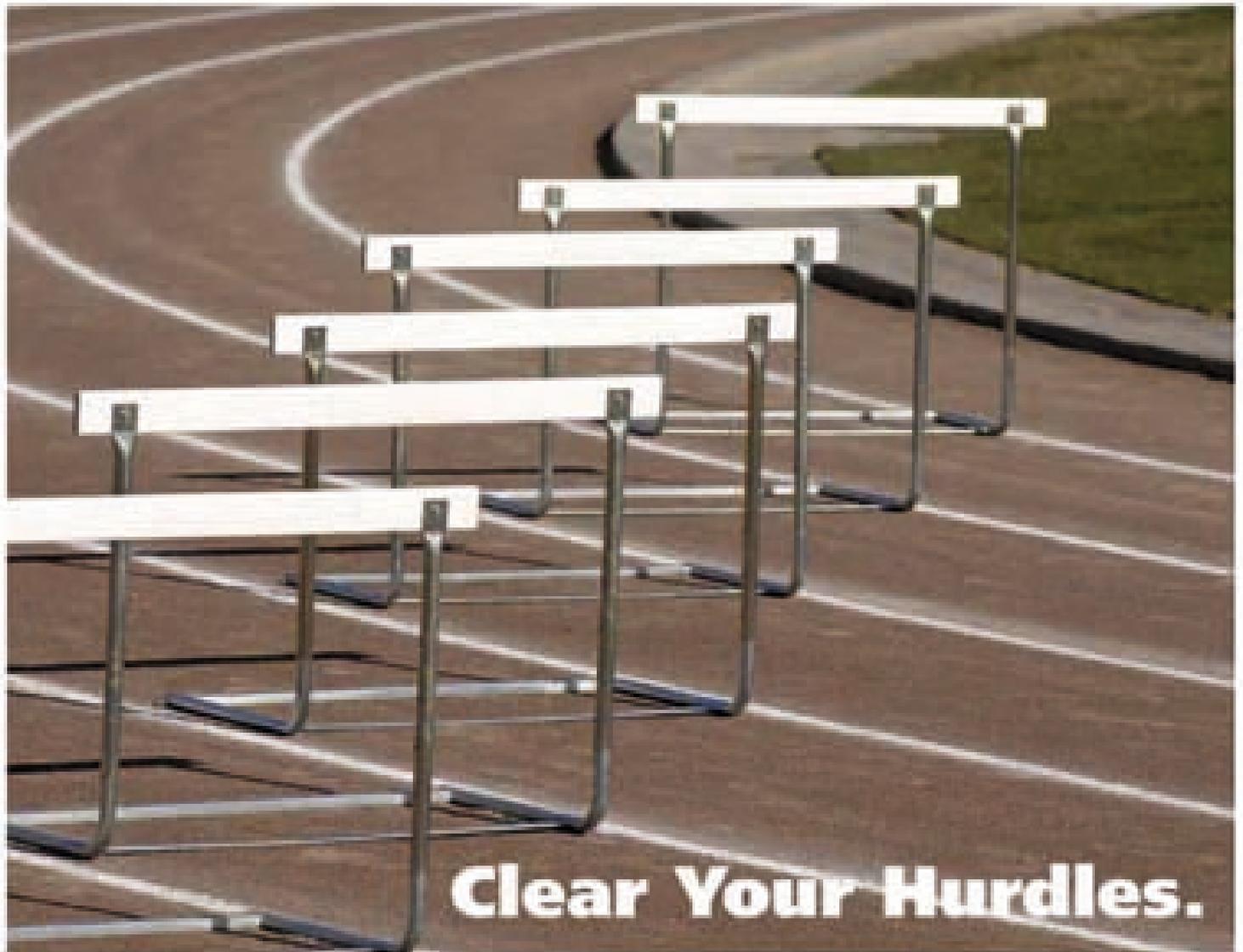
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