SECURITIES & INVESTMENT FEBRUARY 2012

REVIEW

THE MEMBERS' MAGAZINE OF THE CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT cisi.org/s&ir

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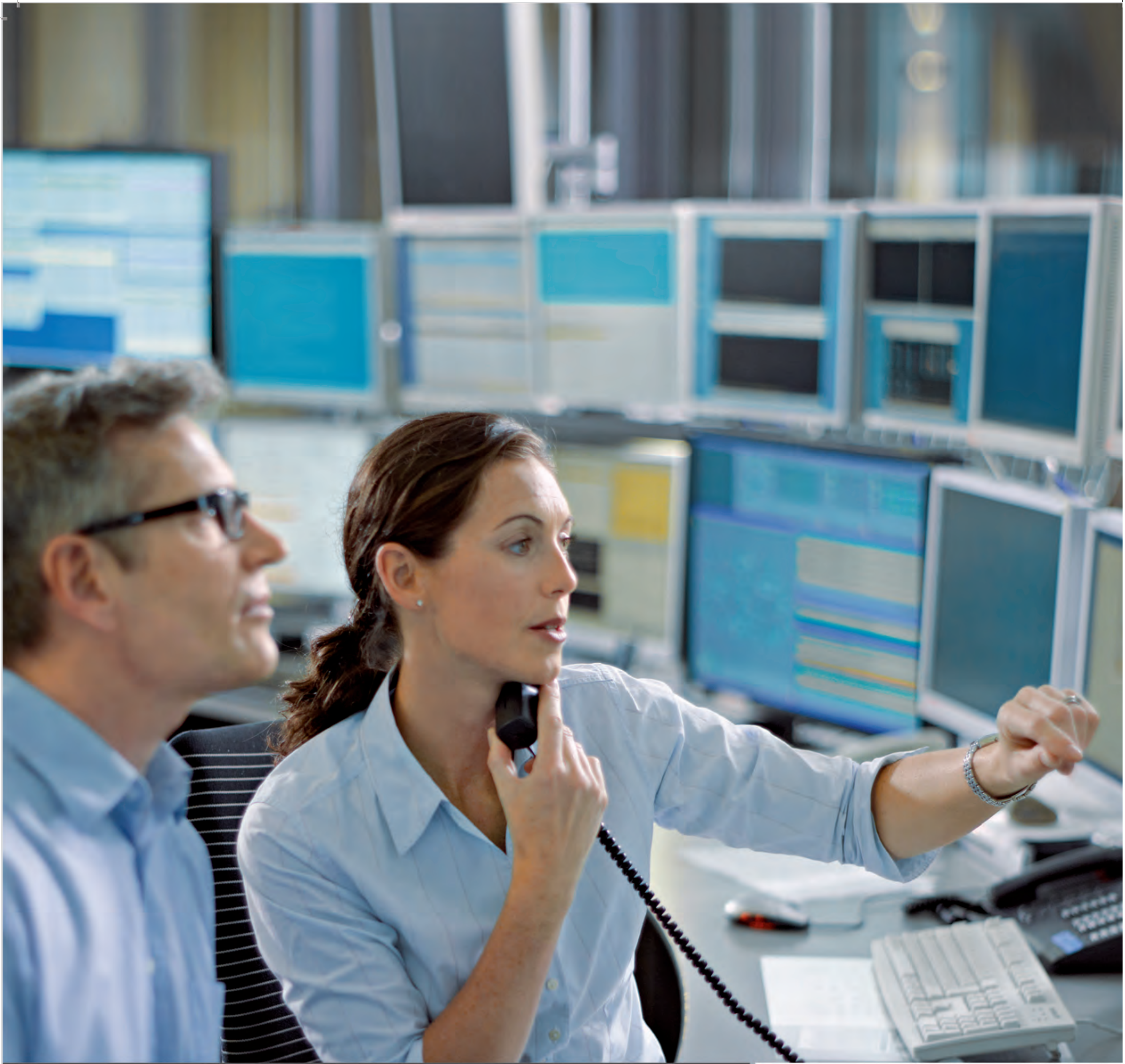

REVIEW

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ISSN: 1357-7069

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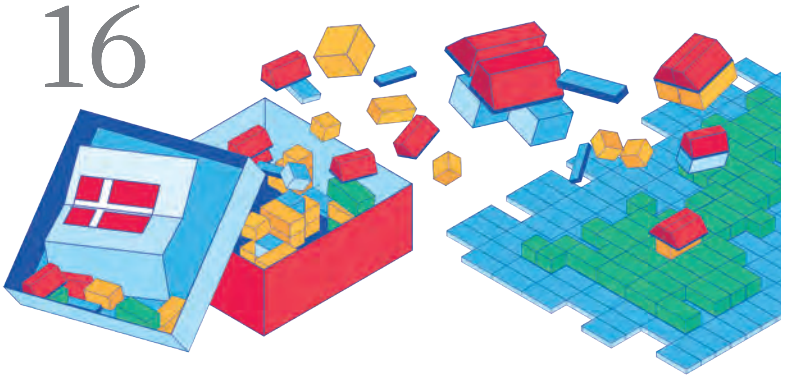

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CISI OPINION

With many households struggling to make ends meet, and debit cards eclipsing cash, might we benefit from teaching financial literacy from an early age?

Banking on education

ONE OF THE ways to encourage greater engagement between voters and the UK Parliament has been the introduction of e-petitions whereby, if an individual can attract more than 100,000 electronic supporters, that petition may be discussed in the House of Commons. The fourth subject to reach this threshold was a motion calling for financial education to be made a compulsory part of every school's curriculum, and was debated with much cross-party support just before Christmas. This is an overdue initiative. As the proposer, Justin Tomlinson, noted, debit-card usage now exceeds that of cash. Within families, about 19% of parents have never discussed with their teenagers how to spend money and 32% have yet to talk about how to budget, or even what a budget is, while only 36% of people understand that the term APR relates to payments. It is no wonder, then, that we are seeing a proliferation of payday loans whose interest rates are close to usurious and make the rate charged by a bank for unexpected overdrafts look like a bargain.

Regrettably, at the moment of truth, the politicians shied away from demanding real change, preferring a tame motion asking merely for the Government to consider the provision of financial education as part of the current curriculum review. However, since the Government had already said that it was actively considering introducing financial literacy as part of the personal social health and education (PSHE) curriculum, this was an opportunity lost. The PSHE curriculum is almost universally derided by pupils and teachers alike. It is seen by many as a filler and is not taken seriously by any party – partly because there is no exam. As a teacher giving evidence to the committee noted, "nothing concentrates the mind like an exam", and as a further witness commented, "nothing concentrates a teacher's mind like an exam". Financial education is too important to be tagged on as an afterthought; it should be fully integrated into the maths syllabus and should be tested. Furthermore, given its

> ***Parliament should insist that each child is given a bank account, at a bank of their choice, without charge***

importance, we should help our children to understand personal finance at a much earlier age, especially as electronic money transmission, whether through debit or proximity cards or by text is, or will be, the norm.

Streamlined and straightforward

Therefore, Parliament should have insisted that, when a child enters their 12th year of formal schooling – in Year 11 and coming up to age 16 – each child is given a bank account, at a bank of their choice, without charge. The mechanics are simple. The bank account will arrive automatically, from central Government, at the same time as the individual receives their National Insurance number. The only form that will need to be completed is one choosing at which bank the individual wishes to open their basic account, and to advise that before their first withdrawal they will need to have visited a branch, provided a single piece of identification and their specimen signature. The bank's anti-money-laundering requirements can be vouched for by central Government, as it will have completed similar checks when issuing an individual's National Insurance number. Therefore, with minimal bureaucratic hassle, each child starts out better equipped for their financial journey. They can now learn how to pay for goods and services electronically, budget, save and participate fully in financial society. No longer will financial literacy be an academic subject; it will be practical, personal and highly relevant. But the MPs should have been bolder still. They should have seized the opportunity given to them by the EU requirement whereby Lloyds Bank will need to transfer one in five of its customers to the Co-operative Bank, without changing either the individual's sort code or account number. They should have mandated the requirement that anyone with a bank account is able to keep and port their bank-account number.

Had they done so, then not only would they have given every rising 16-year-old a key financial tool, but ensured real competition in the banking sector and allowed the individuals choice, with the ability to switch accounts as easily as teenagers today change mobile-phone providers. There is still time to do both. ■

Upfront News and views from the CISI

Got a story to tell or a view to share?
Email Richard Mitchell at richard.mitchell@cisi.org

EVENTS

Europe challenges in spotlight


Frank Gill

The London CPD programme for 2012 got off to a flying start when 160 members crowded into the CISI's first event in London's West End to hear three top-notch presentations on 'Europe 2012 – Challenges and Opportunities'.

Just five days after his team had downgraded the credit rating of nine European countries, Frank Gill, Senior Director of Sovereign Ratings at Standard & Poor's, gave his views on Europe's path to recovery.

He said: "We have previously stated our belief that an effective strategy that would buoy confidence and lower the currently elevated borrowing costs for European sovereigns could include, for example, a greater pooling of fiscal resources and obligations as well as enhanced mutual budgetary oversight.

"We have also stated that we believe that a reform process based on a pillar of fiscal austerity alone would risk becoming self-defeating, as domestic demand falls in line with consumers' rising concerns about job security and disposable incomes, eroding national tax revenues."

The event, at the Royal United Services Institute in Whitehall, also featured Robert Quinn, Chief European Equity Strategist at S&P Capital IQ, the group's analysis arm, and John Botham, Head of European Equities at Aviva Investors. It was repeated the following day in London's Docklands.

View footage of the event at *cisi.org/cisitv* and turn to page 8 to read about forthcoming CPD events in London.

MEMBERSHIP

Price freeze

A freeze on membership fees for the majority of CISI members will enter its third year in 2012/13.

Renewals for the year, starting on 1 April, will be billed as follows:

Chartered FCSI and FCSI	**£185**
Chartered MCSI and MCSI	**£165**
ACSI	**£120**
Affiliate	**£110**

Renewing members are reminded that a £10 discount is applied to payments by direct debit; full details will be included in a renewal pack that will be distributed in February. A late-payment charge of £25 will be applied to members renewing after 30 June. This covers additional administration costs incurred by the CISI.

"The price freeze acknowledges the tough market conditions that our members and firms are facing and our commitment to providing maximum value," said CISI Chief Executive Simon Culhane, Chartered FCSI. "Membership allows access to a wide range of professional and personal benefits – not least our extensive CPD offering, which is largely free to members. We are continuing to develop our products and services to keep our members at the leading edge of the industry."

For further information about CISI membership, visit *cisi.org/membership*

APPOINTMENTS

New voice for student members


Helen Stocks

The CISI is developing its support for students and newly qualified members, and its efforts are being underpinned by the appointment of its first student officer, Helen Stocks.

The CISI is developing a new programme of events for students that will offer insight into the industry, encourage debate on hot topics and provide networking opportunities.

In a drive to gain a better understanding of its student members and the membership benefits they value most, the Institute last month launched a student member-satisfaction survey.

"The CISI has more than 20,000 student members and I aim to give them a voice," said Helen. "I will listen to what student members want and need from their membership and provide relevant support as they develop their careers within the profession."

If you are a student or newly qualified member and want to get more closely involved with the CISI, please email Helen at *helen.stocks@cisi.org*

ONLINE

Bookings made easy

Signing up to attend a CISI event is simpler than ever, thanks to a new online events shop. On entering your membership details at *cisi.org/events*, you can search for events by location and type and book online, with prices, where applicable, automatically adjusted to your membership level.

SUMMIT

Institute members key to UK recovery, says top industry figure


Angela Knight CBE FCSI(Hon)

CISI members have a central role to play in financing Britain's recovery, Angela Knight CBE FCSI(Hon), Chief Executive of the British Bankers' Association (BBA), told Presidents from the Institute's branches at their annual summit in London last month.

She said that their support was key in helping to channel savings into productive, profitable and employment-creating investment in British business.

"The BBA knows that the key to growth is unlocking business potential and that enterprises of all sizes play a vital role in supporting Britain's economy," she said. "UK banks are supporting businesses and business growth by providing finance as well as a range of initiatives designed to help firms achieve their potential. Throughout 2012, CISI and BBA members will work closely together and continue to make efforts and investments nationwide to ensure the success of UK business."

Some 21 Presidents of CISI branches around the UK and in Europe, the Middle East and Asia attended the summit.

3,808 *The number of personally Chartered members of the CISI, a status available since 2009. To find out how to achieve a personal Charter, visit* ***cisi.org/individualcharter***

PROFESSIONAL INTEREST FORUMS

New centre plays host to members

It was not a market crash or panic that led to CISI committee members holding their first-ever meeting in hard hats and high-visibility vests.

Representatives of the compliance, IT and operations professional interest forums (PIFs) donned the safety gear when they visited a £100m data centre near Romford in Essex.

CISI committee members during the visit to the data centre in Essex

Under development by data-centre specialist Infinity, the 100,000 sq ft centre will house a variety of financial services firms, including banks and hedge funds.

The CISI delegation included Richard Crews, Chartered MCSI, Senior Manager at Lloyd's. Richard, a member of the operations PIF committee, said: "The financial services industry is hugely dependent upon the speed and accuracy of computer-stored data to supply critical business information. These demands, coupled with increasingly sophisticated, expensive and fast-changing developments in computer processing, have led to the questioning of in-house provision of data storage.

"A new breed of suppliers, such as Infinity, is developing outsourcing capabilities, supplying bespoke, as well as off-the-shelf, data centres," he continued. "It was highly informative to visit the centre, and the sheer scale of the development was impressive."

The visit was a forerunner event to a CPD seminar in April on data security in the world of cloud computing.

See *cisi.org/capitalcpd* for details and visit *cisi.org/pifs* for further information about CISI PIFs.

QUALIFICATIONS

New training provider in Ireland

The CISI has approved Information Mosaic as an accredited training provider in Ireland.

It is accredited to provide training for the International Introduction to Securities & Investment, Asset Servicing, Global Securities Operations and Principles of Financial Regulation units of the International Operations Certificate (formerly known as the Investment Administration Qualification). Information Mosaic will also support candidates taking the Advanced Certificate, Advanced Global Securities Operations.

Peter Keane, CISI President in Ireland, said: "Information Mosaic has proven itself to have the subject-matter expertise and training disciplines, as well as the technical infrastructure, to provide this range of coursework. With recently introduced legislation on fitness and probity by Ireland's Central Bank, there is a continuing focus on the professionalism of those working in the financial services sector, and the CISI particularly welcomes the appointment of an Ireland-based trainer for its programmes."

CPD

Online tool takes off

A new CISI CPD and gap-fill log is proving a hit with members.

Full instructions for the CPD log, which is more user-friendly and Retail Distribution Review-compliant, can be found in the 'Help' section at *cisi.org/cpdlogin*

CISI fact

Professional Refresher

A key member benefit, the CISI's Professional Refresher elearning tool consists of more than 40 modules, each with its own end-of-subject test.

The most-viewed modules in 2011 were:

1. anti-money laundering
2. taxation
3. integrity and ethics
4. investment principles and risk
5. anti-money laundering (global).

Visit *cisi.org/refresher*. Turn to page 26 of this edition to read more about the product.

Anniversary profile

Peter Wills FCSI(Hon) was a founding director of the Securities Institute, forerunner of the CISI

The Institute this month celebrates its 20th anniversary. Here, Peter Wills FCSI(Hon), a founding director of what was then the Securities Institute, describes its formation by London Stock Exchange practitioners.

"Having been Chairman of the membership committees of both the Stock Exchange and the Securities Association – later to become the Securities and Futures Authority – I suppose I was the natural choice to head the Institute's Membership Committee," he says. "The Institute opened, hoping for some 5,500 members at the end of its first year. Board members spent much time visiting institutions and touring the country to set up regional branches. By December 1992, we had received more than 4,450 applications, mostly from former members of the Stock Exchange who were being 'grandfathered in'.

"But in the next three months we received a flood of applications from individuals working in a wide range of investment activities and with a variety of qualifications, experience and expertise.

"The non-routine sub-committee of myself, David Gittings and two secretaries had to consider hundreds of marginal applications to confirm that they and their qualifications met the admission requirements. By 31 March 1993, we had received 8,578 applications, many of which were still being processed. A year later, there were 8,874 members, including students."

In recognition of his contribution, Peter (membership number 3) was made one of the Institute's first two Fellows in 1993.

Turn to page 12 to read a feature about the Institute's 20th anniversary.

ASIA

India agreement

ICWAI President M Gopalakrishnan, left, and CISI Chief Executive Simon Culhane, Chartered FCSI, holding copies of the memorandum of understanding

The CISI and the Institute of Cost and Works Accountants of India (ICWAI) have signed a memorandum of understanding that will support ICWAI members in obtaining CISI membership.

The ICWAI regulates the profession of cost and management accounting in India and has more than 50,000 members and 350,000 students.

The CISI will offer membership to ICWAI members upon application at Associate (ACSI) level. Those with three years' relevant experience will be admitted to Member (MCSI) level. Concessional fees will be available to ICWAI students.

The two institutes have agreed to jointly conduct seminars and conferences in relevant areas, such as international financial reporting standards and business valuations. They will also share developments of common interest at international level.

23 The London Stock Exchange floor on which the resolution to form the Institute, now 20 years old, was taken. This is reflected in two griffins on the CISI coat of arms having a combined 23 points on their wings.

CPD

Broad scope for London events

Veronica Poole

Nigel Legge

The Institute's London CPD programme continues apace.

On 14 February, Veronica Poole, Deloitte Partner and Global Managing Director, International Financial Reporting Standards (IFRS) Technical, will analyse how IFRS are bringing change, increased transparency and greater clarity to the information used by the investment community.

On 7 March, Nigel Legge will present the CISI's first Founders' Series event of 2012. He is launching an asset management business model, Vinculum, that will waive fees if funds fail to meet benchmarks. Joining him at the event will be Vinculum partner Douglas Thursby-Pelham, who has a background in advertising: he was responsible for the launch of the famous 'Papa and Nicole' ad campaign for the Renault Clio and was more recently global head of WPP's Land Rover business.

Then, on 30 March, Paul Davies of PricewaterhouseCoopers, a leader in the world of private-finance initiatives (PFIs), will assess 'son of PFI', the UK Government's plan to cast its net for infrastructure investors wider than ever before.

For further details of the wide-ranging CPD events programme in London, see page 27 or visit *cisi.org/capitalcpd*

SURVEY

Veto divides opinion

About half (51%) of financial players believe that Prime Minister David Cameron's decision to veto an EU-wide treaty change will have a positive impact on financial services in the UK, a CISI survey shows. However, 34% think that the veto will have a negative influence, while a further 15% feel that it will have no effect.

Welcoming the Prime Minister's stance, one contributor commented that it will "further serve to distinguish the UK as a haven for the financial services industry". Another argued that "the banks are international, and local legislation has a minimal impact".

Among those fearing a backlash from the veto, there was concern that the UK will be left isolated from the EU, its major trading partner. One commentator warned that "we will be left out in the cold".

The treaty was designed to improve financial stability in the eurozone through closer fiscal union of EU states. The Prime Minister said that he had opted out of December's pact in the UK's national interest, after failing to secure safeguards on financial regulation and the single market.

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

ONLINE

BEST OF THE BLOGS

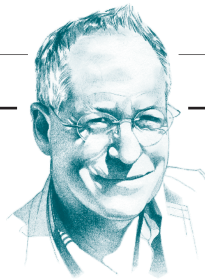
1 tinyurl.com/peston-pensions
Independent analysis from pensions expert John Ralfe suggests that the increase in the standard retirement age to 67 for public sector workers has not led to significant savings on these pensions for the taxpayer, writes Robert Peston in his BBC blog. However, the reforms to force public sector workers to pay an additional 3.2% of their salaries towards pensions and the switch from the Retail Prices Index to the Consumer Prices Index measure of inflation will generate cash for the Government. Ralfe calculates that the new pensions are broadly as generous as they were before, and significantly more generous than almost any pension available in the private sector.

2 tinyurl.com/telegraph-pensions
Britain needs to start again on pensions reform, says Jeremy Warner in *The Telegraph's* personal finance blog. He argues that we shouldn't look at the situation in terms of a widening gulf between the private and public sectors. Excessive government interference, Warner says, has undermined the pensions system – especially the abolition of the tax credit on dividends. He recommends sweeping away the Government's accumulated pension protections and starting again with a system containing a degree of risk.

3 tinyurl.com/buttonwood-pensions
The Economist's 'Buttonwood's notebook' blog paints a gloomy outlook for global pension funds. The deficit of FTSE 350 companies increased from £64bn to £84bn last year, and the funding ratio of British pensions is at 85% compared with 88% at the end of 2010. According to State Street, British pension-fund returns were just 3% last year. With these bleak figures, pension-fund sponsors are faced with a dilemma. Do they make a bigger bet on equities, invest in bonds at the cost of making larger upfront cash contributions, or invest in alternative assets such as hedge funds?

See page 20 for more on the affordability of public and private sector pensions.

Do you have a blog recommendation?
Please send it to the Editor:
louise.reip@wardour.co.uk



CLAY *'MUDLARK'* HARRIS

Back story on Keith Scourfield of JM Finn & Co.

Keith Scourfield was only a teenager when he found himself training football players – including many absolute beginners – from six-year-olds to adults.

Although his youthful ambition to become a professional coach never panned out, Keith – now Dividends Supervisor at JM Finn & Co. – often applies to finance the insights about tailored teaching methods that he gained on the football pitches of Colorado.

Keith grew up in Rayleigh, Essex, where sport was his first love. "I've always been a sporty person – I still am," he says. "It took up a lot of my time." When he left school, Keith studied sports coaching and took a diploma in sports and leisure at South East Essex College of Arts and Technology, now South Essex College. After passing, he got a summer job in a football programme in Colorado. "It made me grow up a lot," Keith says. He enjoyed it so much that his second year of study was followed by another summer in the US.

Once back in Essex, Keith tried to find a route into coaching and contacted local clubs about training schemes, ultimately without any luck. He then pursued another strand of his initial diploma, IT, taking courses that included one on "how to build a computer". Keith approached agencies in the City with his CV and Schroders offered him a data-entry job that evolved into an archivist's position as the bank transferred records from paper. By the time Schroders sold its investment banking business to Salomon Smith Barney (now Citi) and redundancies loomed, Keith had bought a house and needed certainty of income.

He moved to NatWest Stockbrokers, his first conventional role in the back office, where he worked in stock reconciliation. Once again, however, a takeover intervened. Royal Bank of Scotland took over NatWest and relocated the back office to Leeds and Manchester. Keith moved to Quilter & Co., where he gained new expertise. "It was the first time I'd come across dividends," he says. After a year, he asked for more responsibility and, aged 27, was made supervisor of a seven-person reconciliations team."I enjoyed the training side of things, particularly breaking down information in different ways to different people." He harked back to his teenage coaching experience in the US, where each age group had to be taught in an appropriate way. He couldn't stay at Quilter forever, though. "This time I made the decision to move," he says.

> "All of my knowledge has come from on-the-job training"

Keith joined Bank of New York (BNY), working on funds administration. When the process was automated, he moved into a supervisory role and managed cash and stock reconciliations, including dividends. He was in charge of training people in dividends, including some who had no previous knowledge of the subject, and he is especially proud that one such person went on to become an effective trainer herself.

BNY decided to relocate back-office functions, so Keith chose to move again, joining JM Finn five years ago. As Dividends Supervisor, he has built an integrated team that handles everything from start to finish. In the past year, he has also acted as interim manager of reconciliations and spent much of his time on testing systems.

JM Finn's back-office teams work in an open-plan space, which encourages the sharing of information and is a huge advantage: Keith says that although the firm places a heavy emphasis on training opportunities and gaining new skills, all of his knowledge "has come from on-the-job training".

Keith Scourfield

Dividends Supervisor, JM Finn & Co.

Do you have a back-office story?

mudlarklives@hotmail.co.uk

Illustration: Luke Wilson

ASIA

Singapore awards

Kevin Moore, Chartered MCSI, CISI Director of Global Business Development, with two award winners from BNP Paribas, Goh Hwee Fun Irene and Choo Ching Hung Raymond, who shared the prize for Global Securities Operations with colleague Sim Sui Ling Sharon

Top CISI exam performers in Singapore have been recognised by the CISI for their achievements.

In its fourth annual Singapore awards, the Institute honoured 34 high flyers across 18 different qualifications.

Three of the winners each won two prizes: Lua Yan Ling Angela of Deutsche Bank – Investment Operations Certificate (formerly known as the Investment Administration Qualification) and Operational Risk; Lim Jin Yong Duncan from Koch Refining International – Commodity Derivatives and Principles of Financial Regulation; and Timothy Handerson – International Investment Management and Introduction to Securities & Investment (International).

Award recipients came from 13 different firms, reflecting the wide take-up by employers of the CISI's globally recognised qualifications.

For a full list of winners, see *cisi.org/singapore*

SELECT BENEFITS

Save on service

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

UK members have access to Vehicle Servicing Manager (VSM), which uses the UK's largest network of independent garages to deliver average savings of 30% on all your car-servicing and repair requirements, compared with the prices charged by main dealers and franchised garages. With VSM, you can also save 20% on the cost of your MOT.

VSM can save you time as well as money. Your vehicle will be collected from your home or workplace and returned to you washed and vacuumed.*

For more information, call *0871 871 9840* and quote PH001, or for more information, visit CISI Select Benefits at *cisi.org/memberlogin*

*Terms and conditions apply – see website for further details. Subject to availability. Check when booking. Not available in Northern Ireland. These benefits are managed on behalf of the CISI by Parliament Hill Ltd of 127 Cheapside, London, EC2V 6BT.

Ask the experts...

Gareth Parker
Senior Director, product research and innovation, Russell Indexes Europe

NON-MARKET CAPITALISATION-BASED INDICES

European investors can now use a much broader set of indices. It is important to be aware of the types of indices available and to understand their uses for portfolio construction and risk diversification.

Market indices have been around for more than 100 years and are offered by global providers such as Standard & Poor's, FTSE, MSCI and my firm Russell Investments. In recent years, however, the way indices are constructed and used has increased exponentially.

In the past, indices such as the FT30 were a way to measure the performance of a set of stocks in a particular sector, or against which to measure the performance of an active manager selecting a portfolio of stocks. They didn't represent the way an investor would actually invest: they were usually price weighted, a methodology that would be extremely expensive to replicate. Later indices such as the Wilshire 5000 and the FTSE All Share (designed to represent the performance of US and UK stocks respectively) had an improved weighting methodology. This made them a better representation of market performance, but due to their broad nature and the difficulty of trading smaller constituents they still weren't generally used to create an actual proxy investment product.

Later indices such as the Russell 1000 and FTSE 100 use methodologies that accurately represent the way fund managers tend to invest, containing only readily tradable constituents and with larger companies representing a greater percentage of the index. Issuers of products such as exchange-traded funds are giving returns that match the performance of these indices. This involves constructing a portfolio that replicates their constituents and their percentage weight and selling it as a single traded entity that is bought and sold in the same way as a company share.

Recently, markets have become more challenging and investors have realised that a broad-capitalisation approach might not always be most effective. For example, large-market capitalisation stocks (which represent a significant percentage of these indices) have historically skewed towards financial services, a sector that has been significantly challenged in recent years.

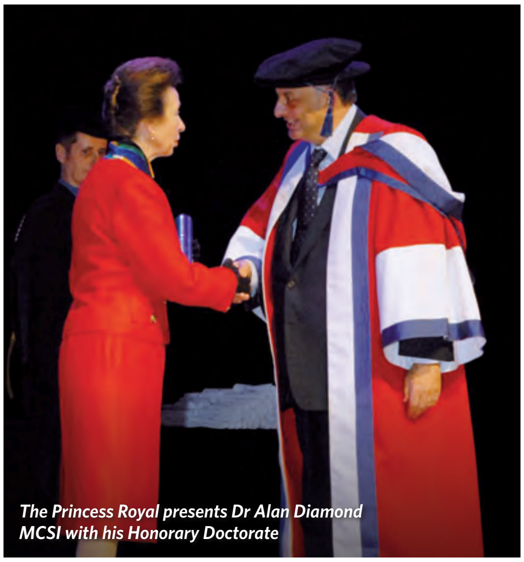
As a result, indices have been built to remedy such perceived disadvantages. For example, they can provide alternative weightings to tilt the index towards a certain set of stocks as opposed to weighting them simply by market value. These methods might include restricting the size of the largest companies, to give stocks equal weighting, or fundamental weighting, which measures constituents according to a company's revenues, profits, etc. Or, indices can mirror investment disciplines such as value or momentum.

These newer indices represent an active decision to move away from pursuing a market performance (the investment return of the whole market). Indices have grown in popularity because they provide an efficient vehicle for institutional and retail investors to construct an asset-allocation scheme with exposure to certain asset classes, investment styles, markets or risk factors. They can be a powerful tool for investors who grasp their importance and understand how they can be used.

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

HONOURS

Royal recognition



The Princess Royal presents Dr Alan Diamond MCSI with his Honorary Doctorate

Dr Alan Diamond MCSI, one of the Institute's longest-serving members, has been appointed an OBE in the New Year Honours List.

Retired stockbroker Alan, who was transferred from the London Stock Exchange into the Institute on its formation in 1992, was recognised for public service and philanthropy.

He has played a key role in developing the British School of Osteopathy, chairing an appeal in 2000 that raised more than £1m, enabling it to secure and develop new premises in Southwark. Through his charitable trust, he has funded extra facilities at the site. In 2009, Alan was presented with an Honorary Doctorate by the school's patron, the Princess Royal, to mark his contribution.

He has also been a major supporter of the University of Cambridge's Girton and Sidney Sussex colleges. Furthermore, for 14 years, Alan served in an unpaid capacity with the Crown Estate Paving Commission, which manages and maintains Crown land in London's Regent's Park area.

During a career in the City of more than 40 years, Alan worked for firms including Redmayne-Bentley and Paul E Schweder Miller.

QUICK QUIZ

Test your industry knowledge

Illustration: Cameron Law

The *S&IR's* Quick Quiz features questions from CISI elearning products, which are interactive revision aids to help candidates prepare for their exams. ☛ Answers are on page 29.

To order CISI elearning products, please call Client Services on ***+44 20 7645 0680*** or visit ***cisi.org***

Q1. Which ONE of the following is an offence under the UK Bribery Act 2010?
A) Acting to gain market advantage by employing fictitious devices ***B)*** Concealing criminal property in the UK ***C)*** Encouraging others to trade on the basis of non-public information ***D)*** Giving a financial advantage to another person to induce improper performance

Q2. Which ONE of the following is one of the broad objectives associated with self-regulation of financial markets?
A) To preserve financial integrity ***B)*** To protect financial institutions ***C)*** To enhance profit levels among industry participants ***D)*** To impose high industry barriers of entry

Q3. A custodian bank will look after securities on behalf of which of the following?
A) Fund managers and pension funds ***B)*** Pension funds and insurance companies ***C)*** Insurance companies and fund managers ***D)*** Fund managers, pension funds and insurance companies

Q4. Which of the following make up the constituents of the FTSE 350?
A) The companies in the FTSE All Share Index ***B)*** The FTSE 100 and the largest 250 companies listed on the Alternative Investment Market ***C)*** The companies in the FTSE 100 and FTSE 250 ***D)*** The FTSE 250 and the next 100 companies listed in the FTSE All Share Index

Troubled *waters*

What are the global implications for oil prices if Iran closes the Strait of Hormuz?

"**EASIER THAN** drinking a glass of water." That's what the head of Iran's navy has called closing the Strait of Hormuz, a narrow waterway through which nearly all of the crude oil from the Persian Gulf must pass to reach international markets.

If so, we should be worried. Oil prices, already at more than $100 a barrel after a year of upheaval in the Middle East that saw Libyan supplies curtailed, would in one worst-case scenario – an Israeli attack on Iran, for example – soar to as much as $250 a barrel.

The world is less dependent on crude for its energy needs than it was in the 1970s and 1980s, so a major oil-price shock would be unlikely. Nevertheless, the recent rise in petrol prices has hampered recovery in the US and Europe. Further gains could snuff it out.

For now, the betting is that Iran, which faces a Europe-wide oil imports embargo from July because of its nuclear programme, is unlikely to carry out its threat to close Hormuz. Tehran would not only cut off all its oil exports – its only real source of revenue – but also risk a military confrontation with America that it could not hope to win. The US fifth fleet, based in Bahrain, consists of more than 20 ships, supported by combat aircraft.

The tightness in physical crude markets, however, means that Iran's bellicose sabre-rattling alone can move prices – the North Sea benchmark Brent is up almost 4% since the start of the year – and its anti-western rhetoric is likely to dominate trading in oil at least until its parliamentary elections in March.

As such, it is worth examining the upside risk for oil. Amrita Sen at Barclays Capital reckons that Iran is likely to be the biggest single source of such risk for 2012, given the low stock levels and slim spare capacity in the oil market.

Were Hormuz to be closed, alternative – longer – routes for Middle East supplies would have to be found. The options, though, are limited to two pipelines crossing Saudi Arabia, which do not have the same capacity.

A more likely outcome, says Sen, is slower-moving and more subtle changes in trade and investment flows.

Existing sanctions against Iran have made it difficult for Tehran to raise output. Last year, its oil production fell 100,000 barrels a day to 3.6 million barrels a day (mb/d). That situation will only get worse. The European Union ban on imports is likely to hit Spain, Italy and Greece harder than other countries. Other sources of crude will need to be found, with Saudi Arabia and Russia likely to make up the shortfall, at higher costs for Mediterranean refiners.

More Iranian oil is likely to head eastwards, though there is mounting pressure on countries such as Japan and South Korea, which depend on Iran for crude, to look elsewhere. Tokyo and Seoul are already seeking new suppliers.

The challenge for these nations is the dearth of alternatives to Iran. Saudi Arabia is the obvious choice, but it recently decided to halt a $100bn expansion of its oil capacity after reaching 12mb/d. Even without

> *Iran's bellicose sabre-rattling alone can move prices*

the added risk from Iran, Riyadh's decision is likely to underpin prices.

Forecasts? Physical traders and hedge-fund managers anticipate prices staying around $100 a barrel in 2012, barring the unexpected. That is founded on healthy demand growth. It envisages Opec, the producers' cartel, sustaining output at current three-year highs, as well as an end to supply disruptions in the North Sea and Libya.

Mike Wittner, oil analyst at Société Générale, is less sanguine. He foresees a Brent price of $125 after the EU ban on Iranian imports. If other countries, such as Japan and South Korea, join the embargo, prices could rise to $150 – a record high.

Though not a catastrophe, such a scenario would be uncomfortable – and not just for Spanish and Italian refiners. Britain's motorists will feel it on the forecourt, too. ■

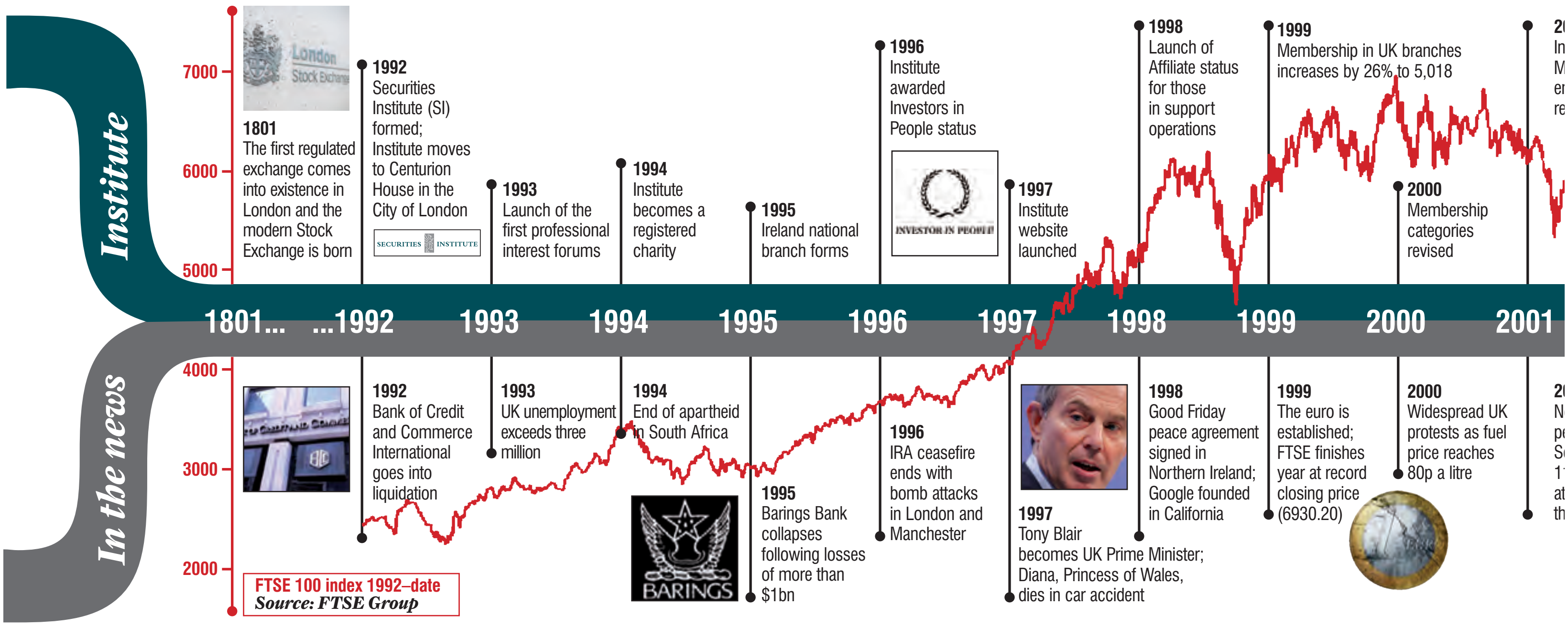
Christopher Adams *is the* Financial Times' *markets editor*

Illustration: Johanna Ward

The CISI marks its 20th anniversary this month. The *S&IR* reflects on the history of the Institute, whose heritage dates back more than 200 years to its origins in the London Stock Exchange. Contributors include the three Chairmen who have led the Institute

From back room to WORLD FORCE

A RISING JOBLESS figure, a stagnant economy and headaches in Europe. While these may sound like current challenges facing the UK, this is a snapshot of Britain from 20 years ago. In 1992, unemployment topped 2.9 million. By comparison, the latest jobless total is 2.68 million – a 17-year high. John Major's Conservative Government won that year's general election and there were shockwaves in September as it suspended Britain's membership of the European Exchange Rate Mechanism after speculation against the pound. The following month, the Government cut the interest rate to 8% as it battled the recession. The Maastricht Treaty was signed in February, creating the modern-day European Union, and, in the same month, the Securities Institute was formed. Forerunner to the Chartered Institute for Securities & Investment, the organisation was set up by London Stock Exchange practitioners to fill a void. Since Big Bang in 1986, the Stock Exchange had relinquished much of its role as a professional body. The Exchange had announced that individual membership would cease from 1 April 1992 and the Institute would take on the role. Today, the Institute is the largest professional body for those who work in the securities and investment industry in the UK, where it is fully accredited by the FSA. It has also developed on the international stage, with offices in India, Singapore, Sri Lanka and the UAE. Membership has grown from 4,000 in the UK to more than 40,000 in 101 countries. Its qualifications are recognised by a growing number of regulators worldwide and, in the past year, it set almost 40,000 exams in more than 70 countries. That compares with about 8,000 exam applications in 1992/93. ■

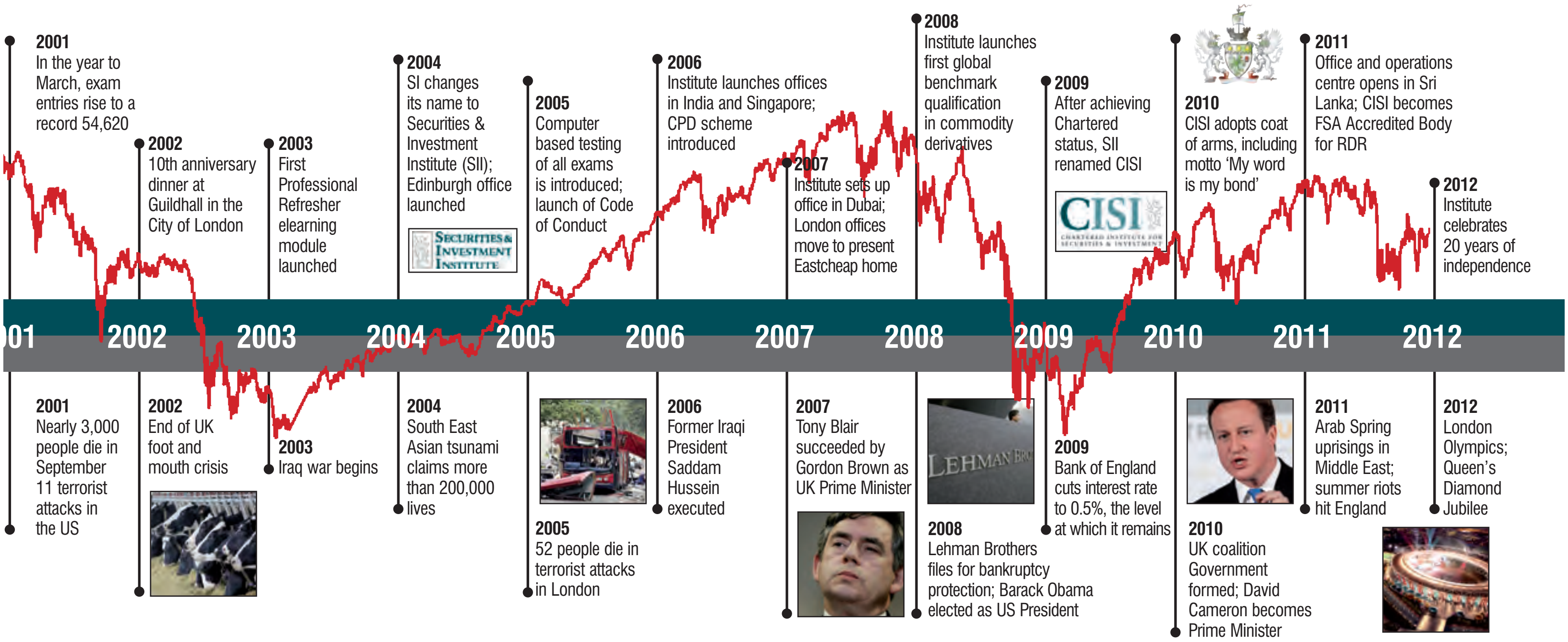


Graham Ross Russell FCSI(Hon) (membership number 1), Institute Chairman 1992–2000

In 1992, together with three other former Stock Exchange Council members, I was given the task of setting up the Securities Institute (SI). We started from a back room on Throgmorton Street in the City and our staff, who became the backbone of the new operation, had previously run the existing Stock Exchange exam. Our challenge was to evolve into a professional organisation that would have real influence on standards of integrity and professional competence among individual practitioners. To do this, we had to expand our membership, develop our services and try to make an impact on a global marketplace. Building the membership was the first priority and, here, we were crucially helped by the existing senior individual members of the Exchange who recognised the importance of the Institute's aims, became members and encouraged others to do so. Within a year, there were 8,000 members; within ten years, 17,000. We ran the Registered Representatives exam (a basic financial-competence qualification imposed by the Securities and Investment Board, the predecessor to the FSA) and started to develop a range of training and exams, including back-office training and qualifications. The concept of 'continuing professional development', or CPD, was evolving throughout all the professions, and we laid the groundwork for this in securities and investment. As part of a global market, we wanted the ethical and professional standards that London was maintaining to be mirrored overseas, and to attract business to the London market. We helped to start a sister organisation in Hong Kong; we 'exported' our exams to South Africa; and we initiated contacts within China, India, the Middle East, Europe and the US. The work of the SI – now the CISI – has expanded greatly from these small beginnings. It is a pleasure to see how its influence has extended.

Scott Dobbie CBE FCSI(Hon) (membership number 3,109), Institute Chairman 2000–09

I was fortunate, in January 2000, to succeed Graham Ross Russell to the chair of an organisation that has clear principles and objectives and enjoys wide respect in the City of London and beyond. I saw my key role as encouraging the continuing development of professional competence and appropriate qualifications. Changes in the structure and products of the securities industry led to substantial expansion both in the range of qualifications offered and in a broadening of the Institute's geographical areas of operation. While there was greater emphasis on continuing professional education as opposed to entry-level exams, new and appropriate qualifications were also developed successfully for schools and for those in tertiary and postgraduate education. The Institute, in keeping with its motto, 'My word is my bond', has always regarded professional conduct as a critical complement to business knowledge. We were therefore particularly pleased in 2005 to be approached by Lord George, then Master of the Guild of International Bankers, to work with him and his colleagues to launch and promote a Code of Conduct for professionals in the financial services industry. This Code subsequently gained widespread support and has formed the basis of much of the Institute's subsequent teaching and promotion of the need for trust and integrity in our industry. The ten years from 2000 saw a significant change in attitudes to corporate governance. The Institute's internal management, Board and constitution were developed to meet the requirements of, for example, the Corporate Code and the revised Charities Act. With the completion of internal structural changes and the external development of the membership and range of activities, it became increasingly clear to the Board and management that the Institute had reached a position from which it could realistically apply to the Privy Council for Chartered status. This was granted in 2009 and provided a base for my successor to meet the challenges and opportunities of the coming years, including the FSA's Retail Distribution Review.



Alan Yarrow, Chartered FCSI(Hon) (membership number 3,337), Institute Chairman 2009–present

I was honoured to be asked to be Chairman of the Institute, taking over from Scott Dobbie following his highly successful chairmanship that culminated in the Institute being awarded its much cherished Chartered status. Taking on the chairmanship wasn't a decision I took lightly. I wholeheartedly support the principles that the Institute has developed, and believe that a code of decent behaviour is critical to re-establishing the respect the industry should have and should not have lost. There is little doubt that the desire for short-term gain overtook good, objective advice to the customer. It is also true that it was probably only a few who allowed this to happen. Just one person can ruin the reputation of a company, and it only takes a few companies to have question marks over their practices to ruin the reputation of an entire industry. This Institute adds real value to the commercial lives of its members and the benefit to their clients. This is possible only with the right people working here who are committed to professionalism and efficiency. Equally, the Institute couldn't function without those members who give their time and invaluable advice for the benefit of others. You can't teach experience, but you can share it, and hopefully those with whom we share that experience won't make the same mistakes. Technology is moving at an ever-increasing speed, and we at the Institute don't propose to be left behind. That is why we have been using the past couple of years to engineer a more robust infrastructure, the fruits of which we are just beginning to see. The next 20 years will be just as exciting as the last. Things will change in the industry and, while we might see some minor tweaking of our principles, they will remain largely the same. We will continue to enforce them because we believe they are timeless, not only 'My word is my bond', but also 'The client comes first'.

Xavier Rolet, Chief Executive of the London Stock Exchange, extends his congratulations to the CISI

We are proud to celebrate the 20th anniversary of the CISI following its development from the London Stock Exchange [LSE] two decades ago. Here at the Exchange, we believe that the CISI has become vital in helping to maintain London's position as the world's leading financial centre. As London has developed, it has attracted the best and brightest people in the world to work in its financial services industry. The hub of expertise these people have formed will be essential in ensuring that London remains a strong global financial centre. By helping to bring out the very best in these talented people, the work of the CISI has been crucial in developing our financial services industry.

A core priority of the LSE Group is to work with international partners from the growth economies to develop the global capital market. Today, the CISI is also developing a fast-growing international presence. As the global economy changes, this international presence will become increasingly important, setting high standards of professional excellence and integrity for the investment and securities industry around the world.

On behalf of the LSE Group, I congratulate the CISI on the valuable work it has accomplished over the past 20 years and look forward to us working closely together in the future.

Members' memories

The Institute's symbol is a griffin. A mythological creature, the griffin represents a guardian of wealth whose role is to chastise avarice and greed.

In 1993, the Institute invited entries from students at Chelsea College of Art and Design in London to design a statue of a griffin to display at its office. The winner was Tobias Apelgren, a Swedish student, and the statue was unveiled by the then Governor of the Bank of England, Eddie George. It now stands in the reception area of the Institute's home on Eastcheap in the City of London.

Tobias Apelgren, right, with Eddie George and the statue of the griffin

Clare Gore Langton, Chartered FCSI(Hon) (membership number 5), was the Institute's longest-serving Director. She is an Investment Director of Rathbone Investment Management.

"I stepped down from the Board in 2010 after a fascinating 18 years, during which I saw the Institute evolve into the prestigious organisation we know today.

"I served under three Chairmen and was lucky enough to have sat on the board with some very senior people drawn from a variety of City institutions whose guidance was extremely helpful. Many of those are now Honorary Fellows, and we try to meet once a year when Chief Executive Simon Culhane and his team bring us up to date with the CISI.

"I am delighted to be involved still as Chair of the Institute's Educational Trust, which is developing very well in providing support for schools as well as the universities sector, and I also sit on the Investment Committee.

"Like many people in investment management, I have recently found myself in the classroom sitting the CISI's Certificate in Private Client Investment Advice & Management to comply with the requirements of the Retail Distribution Review. I was somewhat amused to find that another candidate was at school with my son. The CISI clearly educates all ages!"

Mark Seddon, Chartered FCSI (membership number 2,864), Manager of Redmayne-Bentley's Liverpool office.

"I was the first President of the Liverpool & North Wales branch. The branch, formed in 1994, was one of 18 set up in the early days of the Institute. More than 25% of members worked in the provinces, so such a network was important to ensure that the Institute was relevant not just in the City. The branches evoked the atmosphere of the old regional stock exchanges, focusing on members' professional needs and providing networking opportunities. We also developed relationships with other professional bodies.

"I was President for three years and still enjoy attending branch events – catching up on CPD and with old friends."

The CISI now runs 16 branches across the British Isles and ten National Advisory Councils around the world

Gary Anstey, Chartered MCSI (membership number 4,794), is Managing Director, Gresty Pte Ltd, in Singapore.

"In 1992, I became an original member of the Securities Institute, having been an individual member of the London Stock Exchange.

"That year, I was also relocated to Japan to trade the then relatively new Asian derivatives markets. As my stint in Asia became more permanent, the Institute seemed less and less relevant to me, so in 2000 I allowed my membership to lapse.

"In 2009, the Institute gained Chartered status – a commitment to become the pre-eminent professional body in the financial world.

"This sounded, once again, like an institute worth being a member of, sharing my values and ideals, so I reapplied and gained Chartered MCSI status, a designation of which to feel proud. I am currently working towards becoming a Chartered Fellow.

"Innovations such as CISI TV, elearning tools and CPD, and offices across the globe, have made the CISI a truly relevant organisation for international practitioners. I would recommend the CISI as the institution of choice for people entering financial services who are committed to high standards in qualifications, CPD and the promotion of integrity and ethics."

Institute players relax with the Australian side

On 30 June 1993, the Institute was bowled over by the success of the first of a number of 'Financial Ashes' cricket matches.

An Institute team played an Australian Brokers XI and won convincingly. This was achieved despite the Australian team including international bowler Geoff Lawson and, as the *S&IR* put it, some of the Institute's players being "shall we say, no longer in the first bloom of youth".

In July 1992, the Institute launched the *S&IR*, promising that it would be "forthright and provocative".

The first edition included a welcome from Robin Leigh-Pemberton, then Bank of England Governor, and a profile of Stock Exchange Chairman Sir Andrew Hugh Smith.

Do you have any interesting memories of the Institute that you would like to share with members?

Visit* cisi.org/anniversary *and tell us your story.

This site and the* S&IR *will give updates about the anniversary and events to mark the milestone.

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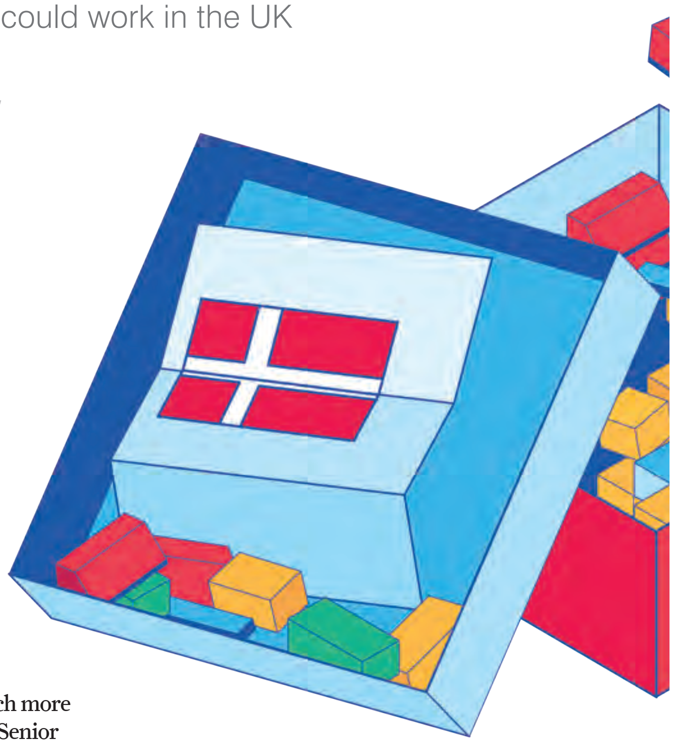
Denmark's simple model for the securitisation of mortgage-backed securities provides a low-risk alternative to other systems and offers low-cost, fixed-rate and adjustable-rate mortgages to consumers. **Dan Barnes** asks whether it could work in the UK

Model example



IN DENMARK'S 200-YEAR-OLD securitised mortgage market, lenders issue matching bonds to finance the mortgages they issue. As a result, the mortgage lenders are exposed only to credit risk and so are encouraged to enforce strict credit standards. According to the Association of Danish Mortgage Banks, there has not been a bond default since the system was established, and no Danish mortgage bank has ever been declared bankrupt.

The returns have been equally impressive. The Nykredit Danish Mortgage Bond Index, comprising the most liquid mortgage bonds listed on the Copenhagen Stock Exchange, hit record levels in January. The Index is up 29% since 2007, gaining almost as much since the US sub-prime collapse as in the previous five years, beating even US Treasuries. Foreign investment has surged, growing 28% (Kr365bn) last year to November, bringing this share of the market to 13%, according to central bank data.

In the event that a mortgage bond did default, bondholders' claims would be covered first. During the financial crisis, Danish mortgage banks were not exposed to the interest-rate, foreign-exchange, liquidity and option risks that their overseas counterparts faced, and experienced no loss of liquidity.

"You don't need an enormous apparatus to do this: it's not an expensive or complex business for smaller institutions"

In Denmark, total loans outstanding for commercial banks declined from about Kr1.5tn at the start of 2009 to Kr1.25tn by the end of 2011, while loans from mortgage banks grew at an uninterrupted pace from Kr2.2tn to Kr2.4tn over the same period, according to the Danish Central Bank. In contrast to banking systems dependent on residential mortgage-backed securities, there has been no need for government guarantees or bailouts in the Danish mortgage system. This track record has led market practitioners and regulators in other countries to look at the model's potential for supporting their own housing markets where they have stalled. "In the UK we've had a huge tightening in regulation, which has made mortgage lending much more expensive," observes Brandon Davies, Senior Non-executive Director at Gatehouse Bank and formerly Treasurer of Barclays and Head of Financial Engineering at investment bank BZW.

A version of the Danish system was launched in Mexico in 2007 (see box). In addition, in 2012, the Dubai International Financial Centre (DIFC) published a feasibility study for developing a UAE market, prepared with the help of Absalon Project, a joint venture between affiliates of Denmark's VP Securities and Soros Fund Management and including prominent investor George Soros. Absalon Project supports implementation of the Danish mortgage model in other markets worldwide. Its UK Managing Director is Kathleen Tyson-Quah, formerly of the Securities and Investment Board (the UK's precursor to its current regulator the Financial Services Authority) and the designer of Iraq's banking network and payments system. She says that talks are taking place with UK authorities to assess the feasibility of a similar model in the UK.

Bernard Clarke, Communications Manager at the UK's Council of Mortgage Lenders, says that the model has appeal, as it removes interest-rate risk for lenders and makes an assessment of the credit risk, which is the key decision for the lender.

Hitting a wall

But Clarke notes that there could be some difficulty attracting UK consumers to long-term credit at fixed rates of interest – especially now. The model might be more useful in stabilising access to wholesale finance for the existing variable-rate mortgage market through issue of matched-maturity variable-rate or tracker-rate mortgage bonds.

"The role of brokers in the UK market and the structuring of many mortgage products by lenders reinforce the appetite for churning products over the shorter term," he says. "Over the last ten years or so, UK consumers have enjoyed very low borrowing costs as a result of these features of our national mortgage market. With short-term interest rates at the current low levels, it will be difficult to offer a long-term loan rate for a period of 25 years or more that will be attractive to the borrower."

Brandon Davies is also cautious about the appetite for interest-rate risk from pension and investment funds.

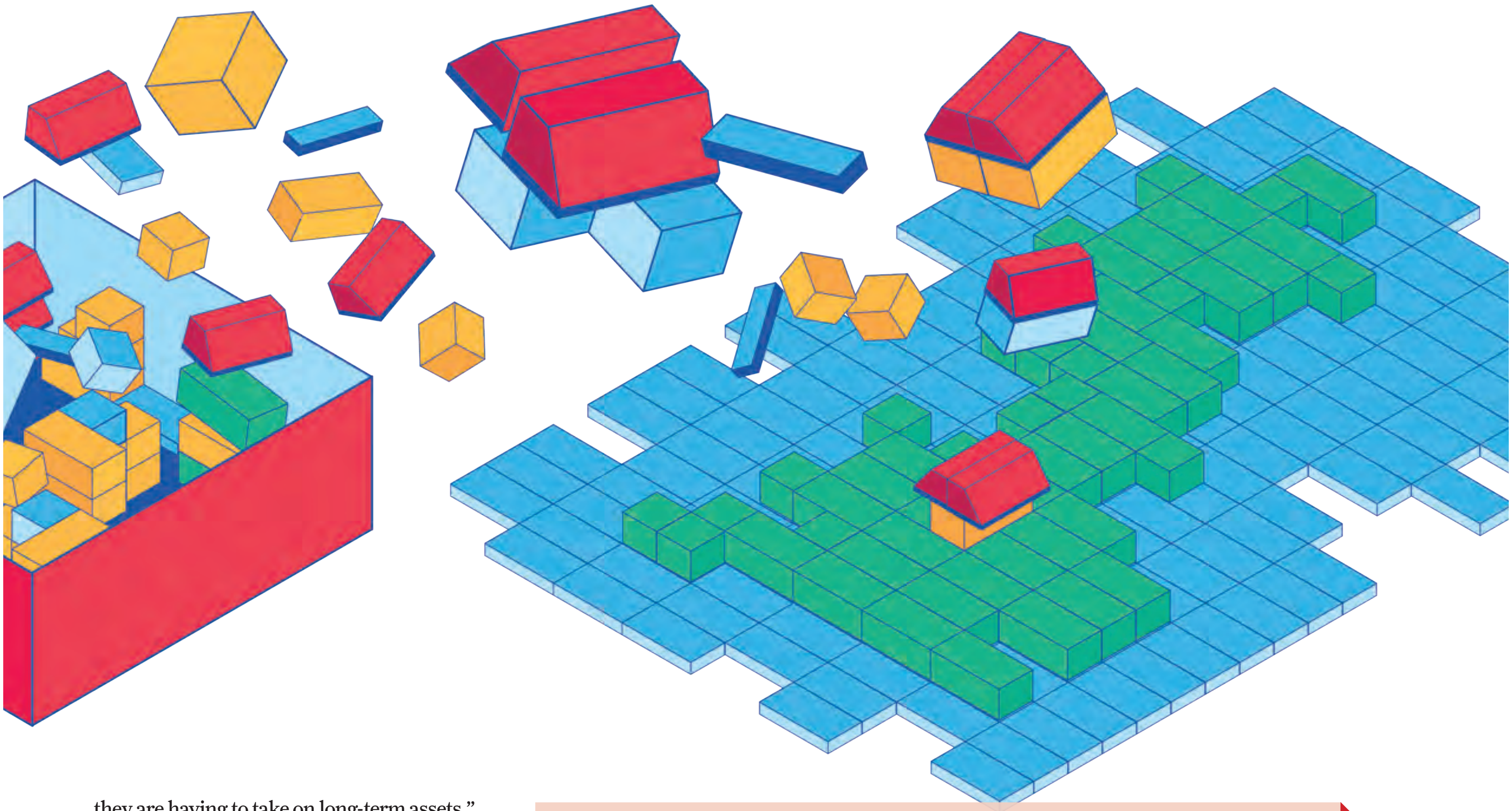
"The head of one of the biggest funds in Denmark has told me that they are very worried by the level of interest rates at which

Mexico's model

HiTo, a mortgage-servicing company inspired by the Danish mortgage trust Totalkredit, launched in Mexico in 2007.

The participating originators would not accept joint liability as the banks that had formed Totalkredit did, so a two-layer structure was developed. Within the issuing trust, each originator has its own segregated sub-trust that issues private notes corresponding to the mortgages. Each sub-trust must be sufficiently capitalised to make the private notes locally AAA-rated.

However, the financial crisis has resulted in a limited use of the multi-originator model; today, a labour-market pension fund, Infonavit, is the main originator of HiTo mortgage loans.



they are having to take on long-term assets," says Davies. Casper Andersen, Associate Director, European covered bonds, at Standard & Poor's, warns of resistance from existing holders of bank bonds. "The assets that are currently backing unsecured bank bonds would be segregated for the benefit of covered bond holders; unsecured bank-bond holders may feel that their security is being diluted," he says. Existing UK mortgage players would resist the commercial threat. "I'd be amazed if retail banks wanted to see this model implemented," said one banker who wished not to be named. "Under the current FSA regime, the business is rather lucrative, with high barriers to entry. It's an insider's game." Retail banks, believes Davies, would avoid the new scheme because remortgaging would be too complicated for customers to understand: "They are scared of another misselling scandal," he warns.

Could the challenges be overcome? Sir Adam Ridley, former Director General of the London Investment Banking Association and a backer of the UK scheme, believes they could. Marketing would help convince pension funds of the appeal of the long-term interest-rate risk. "Other long-term assets won't perform any better," he notes. And the system would be cheap to implement, lowering barriers to entry. "You don't need an enormous apparatus to do this: it's not an expensive or complex business for smaller institutions," he says. "You can get a group of local housing bodies into one family of covered bonds." The EU believes that the UK needs a more competitive banking market. A new mortgage model that could bypass the retail banks would be likely to win the support of Brussels. ■

Illustration: George Myers

How the Danish model works

The existing Danish model was set up following the Copenhagen Fire of 1795, which left 6,000 citizens homeless. It was intended to provide low-cost financing of residential homes, rather than using a commercial lending model.

Mortgage banks can issue three types of bonds: mortgage bonds, covered mortgage bonds and covered bonds. Mortgages were traditionally fixed rate, but in 1996 variable and floating-rate loans were introduced.

The system operates on the 'balance principle'. This is enshrined in market rules that say that the outstanding principal of bonds must always be equal to the outstanding principal of mortgages, and must be issued on the same terms.

"What's critical about the balance principle is that it protects the whole chain of stakeholders," says Kathleen Tyson-Quah, Managing Director, UK, for the Absalon Project. "Whether fixed or variable rate, the borrower is getting near-wholesale interest rates. The bank has no interest-rate risk or refinancing risk – the latter being a major reason for bank failure in the crisis. And bond holders have both a claim on the bank and on the underlying mortgage loans."

Unlike other mortgage markets, the interest rates in the Danish market are not negotiated between the mortgage bank and the borrower; instead, they are determined by supply and demand on the bond market.

The bond holder receives a long-term investment with a transparent exposure to an underlying asset. Under a principle called 'match funding', if a potential homeowner wanted to take out a mortgage, the mortgage bank raises finance by selling mortgage bonds of the same value, with the same repayment and interest-rate terms as the mortgage. When the bank receives the principal and interest payments from the borrower, the money is used to meet principal and interest obligations to the bond holders.

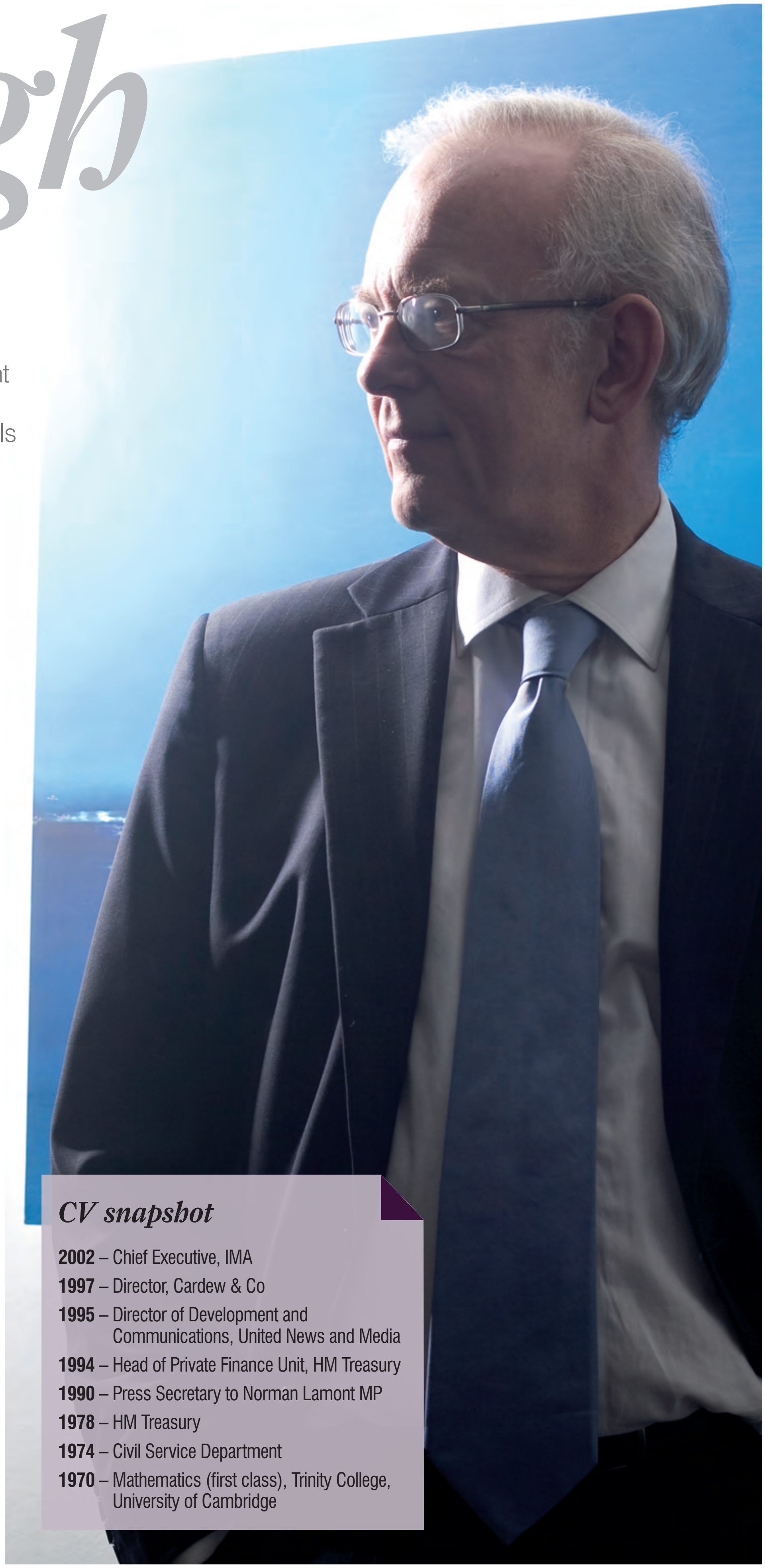
Refinancing is crucial to the model's value for retail investors. According to Danish asset manager Sparinvest, about 50% of mortgage bonds are 'callable' bonds, meaning that if interest rates decline, borrowers on a high fixed rate are able to repay their loan early and take out a new mortgage at a lower rate. If rates rise, they either benefit from the lower cost of their fixed-rate payments or they can effectively remortgage by buying bonds at the lower market price and swapping a capital gain for higher repayments in the future.

"The market is transparent, and the available information so detailed, that you can follow which bonds have been issued on your mortgage," says Casper Andersen at Standard & Poor's. "Most borrowers actively follow the market and look for the right time to convert."

Mortgage banks cannot accept deposits and can only finance loans with bonds on the balance principle. You sense that Sir John Vickers and the Independent Commission on Banking would approve.

Tough TALK

Hugo Cox asks Dick Saunders, Chief Executive of the Investment Management Association, about prospects for the UK industry and how to get ahead in Brussels



AS CHIEF EXECUTIVE of the Investment Management Association (IMA), the representative body of the UK investment management industry, Dick Saunders seems destined to live in the euphemistic 'interesting times' of the Chinese proverb. The tough investment outlook saw total assets under management for the UK industry down 5% last year to November (to £560bn), despite £17bn of new retail-fund sales. But the prospect of regulatory reform means that it will be far from plain sailing for the UK industry even if investment conditions improve. In particular, the Dodd-Frank Act in the US threatens severely to limit European firms selling investment products into the US. Saunders explains: "Especially worrying is the extraterritorial reach, which treats anything that is not a US 40 Act fund [a US mutual fund registered with the regulator] as a hedge fund: firms that have a banking affiliate in the US, such as HSBC and Barclays, will be caught by this. We're writing in strong terms to [US regulator] the Securities and Exchange Commission about it." In Europe, meanwhile, investment managers are especially concerned at the implications of the financial transaction tax (FTT). Harsh criticism of the FTT from the Chancellor and the Prime Minister has emboldened senior industry voices, and Saunders' is unequivocal. "When the FTT is described as a 'Robin Hood tax', that is intellectually dishonest," he says. "It is not a tax on trading; it is a tax on end investors and on saving. Most continental politicians – and those in the UK – who advocate it simply do not get that." It is true, as Saunders points out, that the tax would fall on each link in the chain of transactions that constitute the purchase of a security by a pension fund. He lists, for example, the transaction between the fund manager and the broker; that between the broker and the market maker; and that between the market maker and the settlement house. As

> ***"The financial transaction tax is not a tax on trading; it is a tax on end investors and on saving"***

CV snapshot

2002 – Chief Executive, IMA
1997 – Director, Cardew & Co
1995 – Director of Development and Communications, United News and Media
1994 – Head of Private Finance Unit, HM Treasury
1990 – Press Secretary to Norman Lamont MP
1978 – HM Treasury
1974 – Civil Service Department
1970 – Mathematics (first class), Trinity College, University of Cambridge

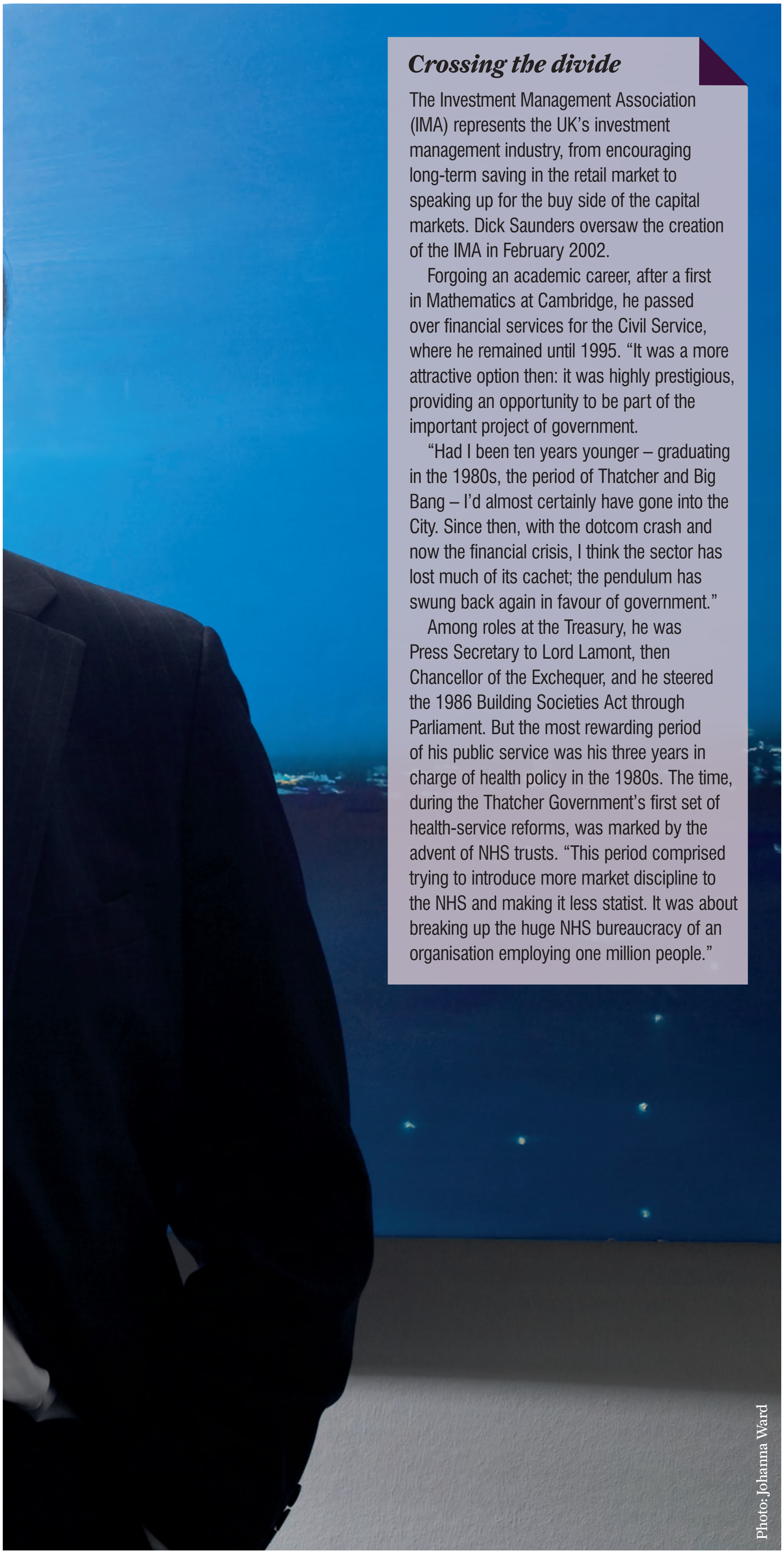


Photo: Johanna Ward

Crossing the divide

The Investment Management Association (IMA) represents the UK's investment management industry, from encouraging long-term saving in the retail market to speaking up for the buy side of the capital markets. Dick Saunders oversaw the creation of the IMA in February 2002.

Forgoing an academic career, after a first in Mathematics at Cambridge, he passed over financial services for the Civil Service, where he remained until 1995. "It was a more attractive option then: it was highly prestigious, providing an opportunity to be part of the important project of government.

"Had I been ten years younger – graduating in the 1980s, the period of Thatcher and Big Bang – I'd almost certainly have gone into the City. Since then, with the dotcom crash and now the financial crisis, I think the sector has lost much of its cachet; the pendulum has swung back again in favour of government."

Among roles at the Treasury, he was Press Secretary to Lord Lamont, then Chancellor of the Exchequer, and he steered the 1986 Building Societies Act through Parliament. But the most rewarding period of his public service was his three years in charge of health policy in the 1980s. The time, during the Thatcher Government's first set of health-service reforms, was marked by the advent of NHS trusts. "This period comprised trying to introduce more market discipline to the NHS and making it less statist. It was about breaking up the huge NHS bureaucracy of an organisation employing one million people."

these taxes stack up, it will not be the agents who pay, he explains. "The transaction costs will be paid by the end investor in the pension fund or ISA that is actually making the transaction."

Less likely to transpire is Saunders' claim that high-frequency traders (HFTs) – which the European Commission's FTT directive targets explicitly – would be able to escape the FTT by relocating offshore. While offshore derivatives markets could be used to create the same exposures to European equities as trading the equities themselves, HFTs need deep and liquid markets to work their high-volume, low-margin trading strategies. Creating mirrored exposures offshore is all very well, but HFTs would have few opportunities to trade them.

But Saunders won't lose sleep if the HFTs are caught by the new tax, for he rejects their benefits to investment funds. "If HFTs went out of business, that wouldn't have a huge impact on liquidity in the market now – I think the market would likely be liquid enough without them."

Nor does he sound a particularly conciliatory note about the principles underpinning the FTT. At some stage, the European Commission will expect some sort of recompense for the €6.3tn spent by European governments to prop up their banks since the crisis. But it should not expect it now, believes Saunders. "You just have to ask yourself whether the European banking system has sufficient funds available to pay €57bn per year in tax. The answer is plainly that it doesn't; it is short of capital as it is."

European player

Saunders' tough positions on these questions might raise hackles in Brussels. But he is no eurosceptic: "The European Commission is a much-misunderstood body. I think it is genuinely neutral; these are highly intelligent people trying to balance a lot of competing interests across Europe."

It's therefore very important, he believes, for the UK Government to play a full part in Europe in order to influence key developments: "This should be not only at a government-to-government level, but also via the European Parliament, which is an increasingly important player."

His own negotiating skills in Brussels – where he spends an increasing amount of time – were heavily influenced by Sir Peter Middleton. Saunders worked for Middleton between 1983 and 1991, when the latter was Permanent Secretary to the Treasury. Saunders describes Middleton, who subsequently chaired the Barclays Group, as his biggest influence.

"He understood which people to get in the room and how to balance competing issues," he explains. Such skills are essential to progress in Brussels, which he describes as "intensely political" and where "personalities are important".

This highly politicised environment is shaped from the top, Saunders explains, and the change of Internal Markets Commissioner in 2010 has made a material difference to the culture there.

"[Previous head Charlie] McCreevy was a free marketer, and a lot of policies reflected that. [Current Commissioner Michel] Barnier – and the personnel underneath him – are more Cartesian: they require a clear logical structure into which everything fits neatly. This contrasts with the pragmatism that characterises the approach of the English, Irish and Americans." ■

The poor relation

Ongoing negotiations between the Treasury and the public sector unions over pensions reform are highlighting the parlous state of private sector pensions, says **Dan Barnes**

ON 5 JANUARY 2012, oil giant Shell, the last FTSE 100 firm to maintain a final salary defined benefit (DB) pension scheme, announced that it would be closing it to new joiners. At the same time, the UK Government was locked in discussions with trade unions over the future terms of public sector DB pensions.

Most of the private sector decided long ago that DB pension schemes were unworkable. Reform in the public sector has only just begun, on the recommendation of the UK Government's Independent Public Service Pensions Commission, which asserted that changes in workforce demographics were leading to a rising value of benefits due to increased longevity. It also cited unequal treatment of members within a given profession – high flyers ending their careers on a large salary benefit disproportionately – and an unfair sharing of the costs of benefits among the employee, the employer and taxpayers.

Informally known as the Hutton Commission after its Chair, Lord Hutton, it put the case in its final report in March 2011 that neither the traditional final salary DB schemes of the public sector, nor the defined contribution (DC) schemes that dominate the private sector, would address these issues.

The cost of supporting an ageing population is of growing concern to politicians. According to the National Association of Pension Funds (NAPF), 12.5 million of the 29 million workers in the UK have no workplace pension at all.

In the private sector, it estimates that about 3.5 million workers actively save into a DC scheme, 2.1 million save into a DB scheme and 5.4 million are deferred members of a DB scheme, meaning that they have one from a former job or were moved out of their current workplace scheme.

As of October 2012, all employers will have to enrol workers into a pension plan, such as the National Employment Savings Trust (NEST), which the Government's Workplace Retirement Income Commission estimates will provide pensions for another 10 million workers. In the public sector, there are approximately 5.3 million active DB members.

The private sector cottoned on to the problems associated with final salary schemes nearly two decades before the Hutton Commission. "Final salary schemes benefit top performers and long stayers, and they also tend to benefit men over women," says Professor David Blake, Director of the Pensions Institute at Cass Business School, who worked as an adviser to the Hutton Commission. "Huge pensions were being given to high flyers in both the private and public sectors. At the end of the 1990s, private sector final salary schemes were replaced by poorly funded DC schemes. Many private sector employees will end up with very low pensions as a result – currently, the average pension pot going into retirement is just £30,000."

Fifteen years later, the Hutton Commission's recommendation

The CARE schemes

In both CARE and final salary defined benefit schemes, the final sum to be earned each year is calculated through a system of annual accrual. A fraction of pay, called the accrual rate, is taken from the final salary or the career-average salary, depending on the scheme. The larger the fraction, the greater the sum paid per year; the more years worked, the greater the total.

Defined contribution schemes are less complex: they have their level of return determined by the amount of money invested and the investment's performance. The resulting sum is used to buy an annuity.

The CARE schemes proposed by the Government and advocated by the Hutton Commission provide a pension based on the career-average salary. The Hutton Commission first proposed an accrual rate of 1/65th of career-average salary; the Government raised this in November to a rate of 1/60th for its suggested CARE schemes.

In December 2011, the Government increased its offer: for civil servants, the rate has been set at 1/44th; for NHS workers, it is 1/54th; and for teachers, it is 1/57th. The reason it can do this without increasing the total pension bill is that it has changed the way in which inflation is accounted for in the final pension payout. Rather than measuring inflation by employees' increased earnings, the calculation now uses the increased prices of goods, as measured by the Consumer Prices Index, which is lower.

Danny Alexander, Chief Secretary to the Treasury, said last November: "We've listened to public service workers and come up with a deal that's fair and affordable. The lowest paid and people ten years off retirement will be protected – and pensions will still be among the very best available."

is to replace the public final salary scheme with a career average revalued earnings (CARE) scheme (see box). The Government supports the proposal, arguing that the CARE model will provide better returns for low- and middle-income earners than the final salary scheme. However, not everyone sees it as a solution to the problems Hutton identified. "Many members of a CARE scheme would end up with a very similar pension to that under a final salary scheme," notes Blake. In other words, taxpayers still end up with an unmanageable burden. Danny Cox, Head of Advice at Hargreaves Lansdown, says: "There is absolutely no doubt that public sector pensions are far superior to the pensions available in the private sector. "In almost every case, it would be foolhardy for public sector workers either to opt out or not join at their earliest opportunity."

Unacceptable?

The unions, unsurprisingly, have no time for the argument that the existing set up is unaffordable, and there is still no consensus between the Government and the unions on the new CARE schemes. The outline agreements have been signed off by trustees of the NHS Pension Scheme, the Principal Civil Service Pension Scheme, the Teachers' Pension Scheme and the Local Government Pensions Scheme, based on the enhanced offer made by the Government last December. Some union executives, however, have turned down the new offer. "Our NHS executive unanimously rejects the Government's pernicious attempts to make hard-working and dedicated NHS staff pay more, work longer and get less when they retire," said Len McCluskey, General Secretary of Unite, Britain's biggest union. "The Government's attacks on public sector pensions are politically motivated, as part of an overall design to privatise the NHS, cut public services, break up the national pay agreements, and disrupt legitimate trade union activities and organisations." Equally vocal are critics on the other side of

> *"The public sector accounts for 20% of the workforce, but it has 60% of the value of pension rights"*

the fence, who stress the inequity of expecting taxpayers to support disproportionate public sector pensions. "Compared with private sector defined benefit schemes, the public sector is generous, but most people in the private sector are not able to get access to a defined benefit pension, so really it is in a different league," says John Ralfe, independent pensions consultant and former Head of Corporate Finance at Boots, who feels that the new offer does not go far enough to reduce the burden on public finances. Eventually, concludes Blake, the Government will have to renege on its promise to public sector employees. "The public sector accounts for 20% of the workforce, but it has 60% of the value of pension rights," he says. "What the public sector unions are currently negotiating will be underwritten by other taxpayers, many of whom will be in defined contribution schemes with contributions no higher than the NEST minimum of 8%. As I said at the time of the Hutton Commission, this is not a settlement that is likely to last – however much the public sector unions threaten to go on strike." ■

At a glance: Public sector versus private sector pensions

Based on the current accrual rate of 1/44th, a lifelong civil servant with a salary at retirement of £29,800, retiring at 68, would receive a pension of £21,300 per annum, according to investment specialists Hargreaves Lansdown.

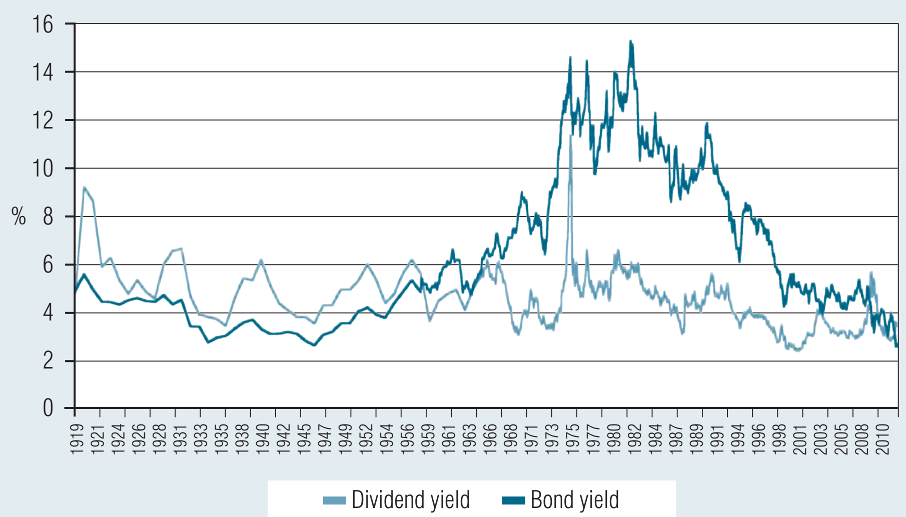
By comparison, a 25-year-old starting to save in a private pension today would need to save £595 per month, increasing by 2.5% per annum, and achieve 6% growth from the invested money, to achieve a pension equivalent to £21,300 when he or she retires at age 68. Based on a salary of £25,000, this is a starting contribution of 28.5% of earnings.

History repeating...

What is the outlook for bond and equity yields in an environment of low interest rates? **Andrew Milligan** of Standard Life Investments suggests that the future could echo the days before World War II

I AM WRITING this article the day after attending a talk by Neil Armstrong, the first man to step on the Moon back in 1969. How the world has changed in the 43 years since that momentous event. From an investor's point of view, technological change, globalisation and the rise of China and the other BRICs would form the basis of a fascinating discussion. In this article, though, I shall focus on one particular aspect of how financial markets have evolved during this time. Specifically, I want to look at how interest rates and bond yields, and their relationship with equity yields, have altered and could develop in the coming decade. The focus of my argument is that financial markets periodically undergo regime change, and that we are currently in a period of transition to a new environment. The likely outcome is that central banks will continue to manipulate bond and money markets for at least as long as the household, financial and public sectors are in adjustment. The world economy may grow and deliver profits, but equities' attractiveness will be restrained by continued government intervention and regulation. In 1969, the world economy was coming to the end of a golden era – one of solid economic growth driven by a major expansion in world trade – and was benefiting from relatively low rates of inflation. The Vietnam War was, however, stretching the resources of the US. The Bretton Woods system of fixed exchange rates was struggling and about to crumble. Slightly more than two years after the Moon landing, the US terminated convertibility of the dollar to gold – one of the largest policy shocks of the 20th century. Within a few years, double-digit inflation appeared and quickly translated into double-digit bond yields and single-digit price per earnings (P/E) ratios. The UK market P/E reached a low of about six at the end of 1974. It took us time to find a new paradigm. The 1970s produced rather high levels of social discord before governments and societies eventually settled on the idea of a low-inflation, small-state world summed up in two words: Reaganomics and Thatcherism.

Bond and dividend yields in the UK, 1919 to 2010



Source: Datastream, Global Financial Data, UBS, Standard Life Investments

Paradigm shift

That worked for about two decades. Abundant credit served to smooth household and business finances; bond yields fell to historically low levels; and P/E ratios moved back towards 20 during the so-called Great Moderation. Then that paradigm began to crumble under its own internal tensions. It was unable to cope with the massive global capital flows that, in simplistic terms, built up the trade deficits in the US and China. I do not need to elaborate on the resulting bear market of 2000/01 and financial crisis of 2008/09. The result today is that, in the UK, the P/E ratio has fallen to about ten and gilt yields are historically low at 2%. That brief overview of several decades of financial history can be summed up in the chart (see left), which shows that we are in an unusual period: a crossover between the dividend yield and the bond yield in the UK. Is this the buying opportunity of a lifetime or a return to the pre-war relationship? It is too soon to be certain, but suspicions are growing that this situation of historically low interest rates (and therefore bond yields), combined with cheap equities as measured by yield or P/E, will continue for some time to come. Why? In brief, we are all now aware of the lingering effects of financial crises on economies, seen today in high levels of unemployment and the inability of central banks to boost money-supply growth in a world of public and private deleveraging. Equity investors appear unlikely to become much more confident about the economic outlook, partly because of politics and partly because of inflation. Governments are reacting to these stresses by intervening in ever greater ways: the UK Government has even been telling banks how much to lend to a particular sector of the economy. This growing

politicisation of capital encourages investors to trade rather than invest. Uncertain market outcomes discourage long-term analysis.

We know that interest rates will be low for the foreseeable future, as central banks have reached the end of the road in terms of conventional policy. Instead, they will adopt other means of enacting monetary policy: quantitative easing, credit easing, currency intervention. Switzerland's decision to fix the franc against the euro is a prime example.

As governments run out of options and political stresses mount, pressures grow on future economic growth

One result of this is more volatile inflation, either from import-price shocks or short-term growth cycles (driven, say, by the political situation). It is still uncertain whether many western economies will turn into pale imitations of Japan, with its two 'lost decades', though governments and central banks are well aware of this risk. But I would suggest that there is a growing parallel between economic policy-making in China and that in many economies belonging to the Organisation for Economic Co-operation and Development, as policy-makers devise more instruments and measures to intervene in different sectors for the national good. One example is the growing way in which governments manipulate capital flows within an economy to ensure a sufficient influx of funds into government bonds at a time of high supply. The end result is more volatile financial markets, which discourages many retail and professional investors.

The major uncertainty about long-term bond yields undoubtedly relates to the deflation versus inflation debate, which will run for some time. In the coming year of weak growth, disinflationary pressures will dominate. In recent months, however, it is clear that central banks have taken a step towards creating inflation. As governments run out of options and political stresses mount, pressures grow on future economic growth. Is the electorate of the affected countries prepared to accept six or seven years of further austerity?

The chart shows how long investment regimes can last. The pre-war period was one of low interest rates and bond yields, accompanied by higher dividend yields. Investors perceived equities to be risky and required a higher yield as compensation. We look likely to return to that environment, at least until politicians remove a growing layer of uncertainty and complexity through their inefficient decision-making, or until society decides that the next investment regime is a high-inflation world. ■

Andrew Milligan
Head of Global Strategy,
Standard Life Investments

Standard Life Investments

Hidden AGENDA?

When a large investment management company arranges the transfer of a smaller company's outsourced work to a third party, it fails to reveal that it is receiving a fee for its part in the negotiations. Is this a harmless oversight or a serious breach of duty?

ALEX FLOWERS IS Chief Executive of Freesia Investment Management, a regulated firm that he set up ten years ago and that recently became a public company. Freesia outsources all of its processing, some of its operations and its corporate secretarial work to Cyclamen, also a regulated firm and public company. Cyclamen is a highly successful firm and is significantly larger than Freesia. Its Chief Executive, Naz, is a university friend of Alex.

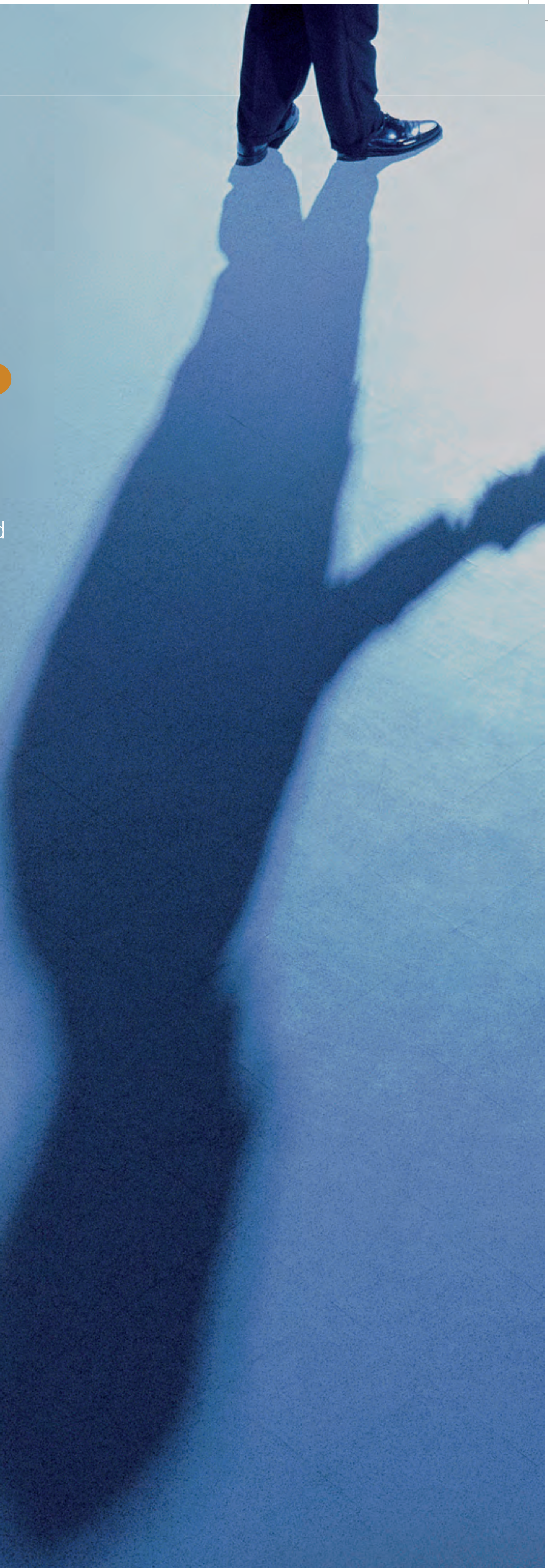
The arrangement runs satisfactorily for some years until, having grown considerably in scale, Cyclamen reviews its activities and decides that it will stop handling any business outsourced from other firms. Cyclamen's Chief Operating Officer (COO), Duncan, advises Alex of this change of policy. He explains that, to minimise disruption to Freesia, Cyclamen has made preliminary arrangements to transfer Freesia's work to Tulip. He sends a detailed proposal, prepared by Tulip, that complies with FSA outsourcing rules, and he offers to set up a meeting to allow Alex to discuss Tulip's proposal.

Alex is unfamiliar with Tulip and, on investigation, discovers that it is a relatively new company, is considerably smaller than Freesia and is staffed largely by former Cyclamen employees. Accordingly, he asks to meet Tulip's senior executives to seek reassurance that the firm has the capabilities to undertake the proposed work to Freesia's satisfaction.

During the meeting, Alex learns that Tulip is not a regulated firm, that it has a modest capital base and that the Chief Executive is a friend and former colleague of Duncan, the COO of Cyclamen. After further detailed questioning, it emerges that Duncan has negotiated that Cyclamen will receive a fee from Tulip if Freesia agrees to the transfer of business to the firm.

Alex is surprised to discover this and feels uncomfortable with the proposed move of Freesia's business from Cyclamen to Tulip. Accordingly, Alex arranges a high-level meeting with Naz to make him aware of his concerns. Alex tells Naz that, from an operational perspective, he is unenthusiastic about the planned switch. These reservations are strengthened by the knowledge that Tulip will make a payment to Cyclamen if the transfer goes ahead, something that Alex found out only by accident.

Naz explains that, because of the scale of his business, he had not been personally aware of the details of this transfer, although he had, of course, known of the intention to cease outsourcing. He was, however, well aware that Duncan knew the people at Tulip and was sure that he would not



He had not given adequate consideration to the conflicts involved, and had not met the standards expected of staff

have agreed to the direction of business to the company if he did not have confidence in their abilities. As for the fee, Cyclamen is, in fact, incurring significant costs in arranging the seamless transfer of business and he feels that, in certain circumstances, the financial arrangements between Tulip and Cyclamen could well be justified. However, given his old friend's disquiet, he agrees to ask his Head of Internal Audit to look into the background to Duncan's proposal and report personally to him. A week or so later, Naz meets Alex to advise him of the contents of the auditor's report. The principal findings are:

- It is felt to be perfectly legitimate to attempt to obtain a transfer fee from Tulip in the event that Freesia moves its business to that company. The auditor is satisfied that Tulip is competent, although it does operate with less capital than would be needed were it a regulated firm.
- The auditor feels that Duncan has not adequately handled the conflict of interest inherent in making the transfer recommendation. The simplest way to do this would have been to make the fee transparent through disclosure. Alex should not have had to ask about this; it should have been made apparent at the outset.

Naz is clearly uncomfortable about what has occurred, saying that he must apologise for Duncan's actions, which he nonetheless feels were undertaken with the best of intentions. Naz explains that, since the loss of the work undertaken for Freesia would have a significant impact on Duncan's cost centre and his ability to retain staff, he had been trying to protect them. The payment of the fee by Tulip would enable Duncan to employ two of his existing part-time staff for a further year. However, Duncan had not given adequate consideration to the conflicts involved and clearly had not met the standards that Cyclamen expected of its staff. Alex thanks Naz for his explanation. He adds that, as an old friend, he feels able to be frank with Naz. To deal with the situation effectively, he suggests that Naz consider the following possible responses:

- what Duncan had intended was clearly wrong and he should be fired
- what Duncan had proposed was wrong, since Freesia was not being offered a similar fee
- the transfer process was flawed and should be restarted on a completely transparent basis
- Duncan's motivation was for the best, so Alex should accept Naz's explanation.

What do you think?

Visit *cisi.org* and let us know. The results, together with the opinion of the Chartered Institute for Securities & Investment, will be published in the April edition of the *S&IR* and will also be posted on the CISI website.

Need to read

The latest publications and study aids supporting CISI qualifications

NEW WORKBOOK

Combating Financial Crime

The objective of this qualification is to ensure that candidates have a basic knowledge of the regulations and practices related to combating financial crime. The *Combating Financial Crime* workbook covers:

- the background and nature of financial crime
- predicate offences
- money laundering
- terrorist financing
- corruption
- bribery
- combating financial crime
- the role of the private sector.

Price: £75

NEW WORKBOOK

Global Financial Compliance

The objective of the Global Financial Compliance qualification is to ensure that candidates have an introduction to international compliance. The *Global Financial Compliance* workbook covers:

- the international regulatory environment
- the compliance function
- managing the risk of financial crime
- ethics, integrity and fairness
- governance, risk management and compliance.

Price: £75

NEW WORKBOOK EDITION

Investment Management

The Certificate in Investment Management is the appropriate, competence-based qualification targeted at investment professionals who are engaged in managing investments, dealing in/advising on securities or derivatives and undertaking activities as a broker fund-adviser. A new edition of the *Investment Management* workbook (valid for exams from 22 March 2012 to 21 March 2013) covers:

- economics
- financial mathematics and statistics
- industry regulation
- asset classes and investment strategies
- financial markets
- accounting
- investment analysis
- taxation
- portfolio and performance management.

Price: £75

NEW WORKBOOK EDITION

International Introduction to Securities & Investment

The International Introduction to Securities & Investment unit provides an introduction to the world of finance and the global financial services industry for candidates working outside the UK. A new edition of the *International Introduction to Securities & Investment* workbook (valid for exams from 21 April 2012 to 20 April 2013) covers:

- the financial services industry
- the economic environment
- financial assets and markets
- equities and bonds
- derivatives
- investment funds
- financial services regulation
- other financial products
- taxation and trusts.

Price: £75

ONLINE TOOL

Professional Refresher

The CISI's Professional Refresher elearning tool enables you to remain up to date with regulatory issues and changes, maintain compliance and demonstrate continued learning. The product now consists of more than 40 modules, including:

- anti-money laundering
- corporate actions
- investment principles and risk
- financial crime
- professional taxation
- training and competence
- the UK regulatory structure.

Price: Free for all CISI members; otherwise it costs £150 per user. Visit cisi.org/refresher for further information.

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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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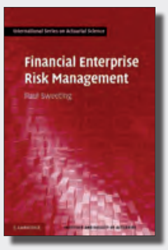
OTHER READING



Financial Enterprise Risk Management

Paul Sweeting, Chartered FCSI, gives readers the tools to build and maintain a comprehensive enterprise risk management framework.

The book covers techniques that can be used to identify, monitor and measure risks, and describes a number of risk-mitigation strategies. Solvency II and Basel III are two of the risk management frameworks discussed.

***Financial Enterprise Risk Management*, £65, is published by Cambridge University Press. It is available to CISI members for £52 if ordered online at *cambridge.org/CISI2012*. The offer runs to 31 December 2012.**

External specialists

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. They all receive a number of benefits to thank them for their involvement.

There are currently about 300 external specialists who have volunteered to assist the Institute's qualifications team, but more are required.

The CISI would particularly welcome applications from specialists to help with developing its regulatory titles, *Corporate Finance Regulation*, *FSA Regulation & Professional Integrity* and *FSA Financial Regulation*.

To register your interest, please contact Iain Worman on *+44 20 7645 0609* or download the application form at *cisi.org/externalspecialists*

Diary

Events to attend over the coming months

Conferences

28 March **Private Wealth Management Conference**
Haberdashers' Hall, 18 West Smithfield, London, EC1

20 June **Annual Conference**
Glaziers' Hall, 9 Montague Close, London, SE1

CISI members can attend these conferences for just £200 (non-members £400). For further details, visit *cisi.org*, call +44 20 7645 0680 or email *clientservices@cisi.org*

CONFERENCE SPONSORSHIP
To consider taking up one of the sponsorship or exhibition opportunities at a conference, please contact Hannah Steele on *+44 20 7645 0648* or email *hannah.steele@cisi.org*

Professional courses

Venue: London unless otherwise stated

22/23 FEBRUARY **Derivatives* (Glasgow) £900**

23 FEBRUARY **Investment Principles & Risk (PCIAM)* (Liverpool) £300**

23 FEBRUARY **Investment Principles & Risk (IAC)* (Liverpool) £500**

23/24 FEBRUARY **Investment Principles & Risk (LSE)* (Liverpool) £900**

6 MARCH **Introduction to Financial Markets £500**

13 MARCH **Securing Competence & Professionalism £500**

15 MARCH **Operational Risk: Taking it to the Next Level £500**

20 MARCH **Integrity & Trust in Financial Services £300**

21 MARCH **Securities* £500**

22 MARCH **Investment Principles & Risk (PCIAM)* (morning) £300**

22 MARCH **Investment Principles & Risk (PCIAM)* (afternoon) £300**

27 MARCH **Investment Principles & Risk (PCIAM)* (Birmingham) £300**

27 MARCH **Investment Principles & Risk (IAC)* (Birmingham) £500**

27/28 MARCH **Investment Principles & Risk (LSE)* (Birmingham) £900**

3 APRIL **Pensions & Retirement Planning* £500**

4 APRIL **Securities* £500**

11 APRIL **Investment Principles & Risk (IAC)* £500**

11/12 APRIL **Investment Principles & Risk (LSE)* £900**

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

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.

To book:
cisi.org *clientservices@cisi.org* *+44 20 7645 0680*

CISI annual dinner

6 September
Guildhall, Gresham Street, London, EC2
Save the date in your diary for the CISI's premier social event of the year – its annual dinner – which will celebrate the Institute's 20th anniversary. For information, please email *flagship@cisi.org*

Branch events

17 FEBRUARY **An Update from the Bank of England**
West Country: Bank of England offices, 11–15 Dix's Field, Exeter

21 FEBRUARY **The Weavering Case (Corporate Governance Issues)**
Isle of Man: The Claremont Hotel, 18–22 Loch Promenade, Douglas

22 FEBRUARY **Transparency: ETFs Under the Microscope**
East Midlands & Lincoln: Brewin Dolphin, Two Colton Square, Leicester

24 FEBRUARY **Financial Crime**
North East: Brewin Dolphin, Time Central, Gallowgate, Newcastle

1 MARCH **Annual dinner**
Northern Ireland: Belfast Harbour Commissioners, Corporation Sq, Belfast
(Guest speaker: comedian Gene Fitzpatrick)

7 MARCH **Annual dinner**
East Midlands & Lincoln: Devonshire Place, 78 London Road, Leicester
(Guest speaker: cultural historian Lars Tharp)

9 MARCH **Annual dinner**
Jersey: L'Horizon Hotel and Spa, St Brelade, Jersey
(Guest speaker: TV and radio presenter Clive Anderson)

5 APRIL **Drinks reception**
Birmingham & West Midlands: Metro Bar, 73 Cornwall Street, Birmingham

To book:
cisi.org/onlinebooking *region@cisi.org* *+44 20 7645 0652*

London CPD events

14 FEBRUARY **IFRS – Insights from the Revolution**
Deloitte, 2 New Street Square, EC4

16 FEBRUARY **Options Trading in Turbulent Markets**
Morningstar UK, 1 Oliver's Yard, 55–71 City Road, EC1

21 FEBRUARY **European Markets Infrastructure Regulation**
SWIFT, 55 Mark Lane, EC3

23 FEBRUARY **T2S and the Future of European Post-Trade Competition**
SWIFT, 55 Mark Lane, EC3

28 FEBRUARY **Mifid 2 – What Does It Hold in Store?**
Watermen's Hall, 16–18 St Mary-at-Hill, EC3

1 MARCH **Into the Folly of Value: Reforming Sustainable Finance**
Bank of America Merrill Lynch Financial Centre, 2 King Edward Street, EC1

7 MARCH **Founders' Series – Nigel Legge**
The Willis Building, 51 Lime Street, EC3

8 MARCH **Gresham's Law in Economics – the Background to the Crisis**
Gresham College, Barnard's Inn Hall, Holborn, EC1

20 MARCH **The End of Space and Time?**
Gresham College, Barnard's Inn Hall, Holborn, EC1

29 MARCH **Philanthropy Now – the City's Key Role**
Gresham College, Barnard's Inn Hall, Holborn, EC1

30 MARCH **Son of PFI – the Next Wave of British Infrastructure Investment**
PwC, 7 More London Riverside, SE1

For further information about London CPD events, visit *cisi.org/capitalcpd*

To book:
cisi.org/onlinebooking *clientservices@cisi.org* *+44 20 7645 0680*

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Professional interest forums

Wealth management events

Jason Dalley, Chartered FCSI

Frank Dolan, Chartered MCSI

Embracing social media and safeguarding investments are among the topics that will be tackled in 2012 by the CISI's wealth management professional interest forum (PIF).

Its next event, on **27 March**, will examine working relationships between wealth managers and financial advisers in the wake of the Retail Distribution Review. Jason Dalley, Chartered FCSI, Investment Director at Rathbone Investment Management, will interview, among others, forum Deputy Chairman Frank Dolan, Chartered MCSI, Investment Director at Novatis Asset Management, about the subject.

On **22 May**, Peter Moores, Chartered FCSI, of Raymond James Investment Services, will begin a two-part series on bullet-proofing the investment process, interviewing Tim Hale, CEO of Albion Strategic Consulting. The second event, on **17 July**, will feature contributions from ComPeer and Standard & Poor's.

Another two-part series, exploring the opportunities presented to wealth managers by the social media revolution, will commence on **25 September**. On that date, Malcolm Johnson, a consultant and lecturer on social media, will consider how the communication medium can be used to connect with clients. A follow-up event on **27 November** will see Freddy Barker, Chartered MCSI, of Spear's, give firms' perspectives on the subject.

To join the 400 members already signed up to the mailing list of the wealth management PIF, or to book a place on one of its events, please email *pwmanforum@cisi.org*

The wealth management forum is one of seven PIFs run by the CISI. The others cover compliance, corporate finance, Islamic finance, IT, operations and risk. Each of these discussion groups meets at least once a quarter in London to debate current issues and hear presentations from industry speakers. Events are generally held at midday, with a light lunch provided and opportunities to network.

Fellows, Members, Associates and Affiliates of the Institute can attend meetings for free as a CPD benefit. Students may attend one event of each forum annually.

For more information about forthcoming meetings, visit *cisi.org/pifs*

DEVELOPMENT

Training and competence interest group

Previously known as the training directors' forum, the CISI's training and competence interest group is a benefit predominantly for those in a senior training role. However, anyone interested in matters related to learning and development or training and competence may also find it relevant.

The group comprises representatives from wealth and fund management firms and the top 50 investment banks.

Key features:

- attendance counts towards your annual CPD target and the Institute will log the hours for you if you are part of the CISI CPD scheme
- central London locations
- light lunch and opportunities to network.

The group is chaired by Sandra Jacobs, Regulatory Risk Manager – Central Functions, Royal Bank of Scotland, and meets four times a year.

For further information about the group and to book a place at an event, please email your name and employer details to *tcigroup@cisi.org*

Forthcoming meeting dates:

8 March
28 June
6 September
6 December

ASIA

Hong Kong event

CISI members can attend the second annual Custody, Clearing & Settlement Asia event in Hong Kong at a 15% discount.

The event will be held at the Novotel Century on 20–21 March.

To secure the saving, members should quote the code CISI15 when registering.

Non-members can receive a 10% discount by quoting CISI10.

Attendance at the educational portion of the event will count as CPD hours for CISI members.

For more information about this conference, please visit *custodysettlementasia.com* or contact the conference organiser directly at *enquiry@iqpc.com.sg*

Membership admissions and upgrades

MCSI
Aegon
Sarah-Jane Lockhart
Almisehal
Zahid Malik
Anness Publishing
Akosua Dwomo-Fokuo
Asia Pacific Investments
Amitha Vijaya Abeynaike
Aviva
John Braybrook
George Stuart Murray
Bambridge Accountants
Alistair Bambridge
Barclays
Alexander Davey
Edward Docmerty
Alexander Liddle
David Miller
Martin O'Grady
Jayanta Sarkar
Emma-Jayne Stapley
Robin Taylor
Steven Walker
Bastion Capital
Tomasz Jaron
Beau Plan
Dhaneswar Chooramun
Becketts
John Sangster
Bestinvest
Benjamin Gilbert
Simon Moore
Bloomberg
Sacha Fellica
Brewin Dolphin
James Badham
Lubomira Katzarova
Andrew Morgan
Brooks Macdonald
George Bromfield
Daniel Masters
Mark Shields
Tobias Thompson
Ormonde Webster-Smith
Andrew Wilson
Brunsdon
Alex Bound
Butterfield Bank
Charles De Nobrega
Cavendish
Alison Hyde
Paul Mumford
Caroline Vincent
Caxton
James Hickman
Cazenove
Tom Allen
Charles Armstrong
Rupert Asquith
Alexander Baily
James Barker
Timothy Burrows
Edward Coley
Nicholas Dobbs
Marcus Durie
Laurence Forrester
William Fox
Nicolas Georgiadis
Toby Glover

Membership admissions and upgrades continued

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Adam Green
Edward Harley
Jeremy Hervey
Jessica Leigh-Pemberton
Harry McGowan
Damian Morley
Michael Nicolai
Richard Onslow
Robert Ridland
Damian Robinson
Steven Rooke
Andrew Ross
Nicholas Sanderson
Robert Snuggs
Alexander Tate
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Charles Stanley
George Baker
Mary Coughlan
Carl Jex
Caroline Milne
Matthew Moyes
Cheviot
Laura Breakwell
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Collins Stewart
Jasper Walshe
Coutts
Katherine Coveney
Credit Suisse
Samuel Grayland
Deloitte
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Deutsche Bank
Joseph Knight
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Andreas Wichmann
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EFG
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Goldenberg Hehmeyer
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HSBC
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Thalawaththalage Kumarasiri
Justin Redfern
Ian Ross
Rohan Senewiratne
Simon Smales
IFM Trust
Juan Luis Medina
Investec
Robert Crabtree
Lyn Davies
Emily Groom
Nicholas Sketch
Hannah West
IOMA
Vincent Nyawai
J O Hambro
Jennifer Fisher
William Kenney
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Russell Wallis
Julius Baer
Darren Porter
Kuwait Finance House
Mohamed Rifath
LCF Edmond de Rothschild
John De Garis
London Pensions Fund Authority
Roona Ellis
Maldives Stock Exchange
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Man Group
Akeem Raheem
Mazars
Shane Reynolds
Merrill Lynch
Peter Anderson
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Anthony Bridge
Clara Chehab
Marilia Dixon
David Durlacher
Glen Eels
Dudley Flynn
Daniel Fresnais
Jonathan Gough
Sunil Gupta
Elizabeth Kunzler
Robert MacIntyre
William O'Neill
Oliver Orth
Gavin Reed
Etienne Renaud
Rafeek Tadros
James Townend
Tiffany Troxel
David Vignalou
Matthew West
Moore Stephens
Giovanni Giro
NOMAC
Kaustav Roy Chowdhury
Orient Investments & Finance
Ranawaka De Alwis
Paul E Schweder Miller
Andrew Petter
PH Partners
Dominic Hawker
Pieter Burger & Associates
Pieter Burger
Pilling & Co
Michael Tattersall
PricewaterhouseCoopers
Nikos Palamaras
Quilter
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Thomas Lovell
Raymond James
Stuart Hutton
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Rothschild
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Royal Bank of Canada
Neil Jeffries
Edward Loader
Samuel Palmer
Safe Investment
Hei Man Lam
Savoy
Joseph Sofer
Scottish Investment Operations
Alan Thornburrow
Seven
Stuart McCann
SG Hambros Bank
Christopher Chitty
Nadia Kribi
Desmond Murray
SRLV Accountants
Ash Dissanayake
VSA Capital
David Nabarro
Walker Crips
Wesley Coultas
Others
Ethem Arabaci
Ian De Burgh Marsh
Hoang Le
Jin Ma
Tongbiao Qin
Hussam Raouf
Norbert Tairo
Xiujun Yang

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35 Finance
David James Dwyer
Arup
Geoffroy Chene
Aspin Analysis
John Elderton
ATI Associates
Darryl Brock
Bank of America Merrill Lynch
Jason Horn
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Matthias Lehleiter
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Maxwell White
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Bluefin
Geoffrey Winchester
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Jennifer Brady
Scott Cowan
Fatou-Bane Dioukhane
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Elizabeth Smith
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Ching Yee Chan
Brewin Dolphin
Pauline Fernandes
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Credit Suisse
Stephen Halsey
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Brent Mayhew
Dixcart Trust
Jeanne Durant
ETX Capital
Oliver Lyons
Family Investments
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Mohamed Mohamed Usama
Forth Capital
Fergus Amy
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Hargreave Hale
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Aled Jones
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Hassium
James Theo
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Lloyds TSB
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M&G
Monisha Gokhale
Mandara Capital
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Morningstar
Paul Mifsud
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Lindsey Paragreen
Pass Associates
Patrick Esiemogie Idode
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Sarah Hannah
Carla Jarrett
Sze Loo
Phil Lynch
Rachel Winrow
Plurimi
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Pretium Securities
Alexander Ainley
Paul Kettle
Richard Smith
Pritchard
Martin Ashworth
Psigma
Abby O'Brien
Quilter
Rhona Kennedy
Rathbone
Barbara Forshaw
Redkite
Gavin Marcus
Redmayne-Bentley
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Reliance
Mazhar Alam
Rothmans
Adam Bolger
Rowan Dartington
Sebastian Roiz De S'a
Royal Bank of Canada
Oliver Chessis
Peter Alexander Dixon
David Storm
Royal Bank of Scotland
Mark Farrand
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Seven
Hannah Maxey
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Kelly Burgess
VIP Consultants
Syed Naveed Naqvi
VSA
Bruce Davidson
Nicholas Rhodes
Yorkshire Bank
Owen Malton
Others
Oluseyi Odunfa
Babajide Oniwinde
Scheherasad Siepa

Chartered FCSI
AXA Wealth
Marcus Parsons
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Brewin Dolphin
Luke Pearce
Credo Capital
Nicholas Hooper
Fitch
Weiyen Hung
Royal Bank of Canada
Charles Hobbs

This list includes membership admissions and upgrades from 1 November to 19 December 2011

Answers to the quiz from page 10: 1:D, 2:A, 3:D, 4:C

Up to *speed*

John Richardson, left, pictured with navigator Tom Sauvarin

John Richardson, Chartered MCSI, is on the crest of a wave after becoming a world champion in powerboating. **Lora Benson** reports

SECURING VICTORY IN the World Offshore Powerboating Championships represented a meteoric rise for John Richardson in a sport he took up only three years ago. Driver John, paired with navigator Tom Sauvarin, defeated 12 other boats at the Torquay tournament to bring the title to the UK for the first time in 20 years. They won the first two races of the 3B class championship, for boats with an engine up to 115 horsepower, and sealed the title with a fourth-place finish in the final event. "The sport has been so dominated by Scandinavia," John says, "that we could hardly believe we had become world champions. Our aim prior to the event had been to secure a top-five finish, but when we turned up and saw the amazing boats we were up against, even that seemed a bit far-fetched." But John got off to a flying start in the opening race, when rough conditions suited his boat's strengths. While he celebrated success, many of his rivals had to contend with damage to their crafts, which had been battered by two-metre sea swells. Going into the third race with two victories under their belts, John and Tom needed only a seventh-place finish to clinch the world title. "There was incredible pressure knowing that we were so near to success but that so many things could go wrong," says John. "Our intercom system failed, so Tom had to communicate with me by tapping me on the head and shoulders to tell me where to go and where the other boats were." Crossing the finishing line after gaining enough points to win the competition was, he says, "an amazing feeling". For the past four years, John has jointly run a consultancy firm in his native Guernsey. St Martin-based Offshore Consulting (Guernsey) Ltd offers resources for fund administrators and other financial services providers for special project work such as procedural reviews, fund migration and system implementation. John's passion for powerboating dates back to his childhood days, when every year Guernsey hosted a leg of the sport's equivalent of a Formula One Grand Prix. "There was a week-long annual festival, including a cavalcade through the town that schoolchildren were given the day off to watch," he remembers. "I always dreamed of being able to drive a powerboat." John realised his

> ***"After watching the first race, I promised myself that I would be on the start line for the next event"***

ambition following the relaunch of the Guernsey Powerboat Association three years ago. He recalls: "After watching the first race, I promised myself that I would be on the start line for the next event – and I was!" Having met various training and medical requirements to be able to compete, he proved a natural at the sport and has since won a number of races in Guernsey. His high-speed hobby has not, however, been without its challenges. "In my second-ever race, I hit the wake of a ferry flat out and the impact was so hard that I snapped one of the bolts holding the engine on," he reveals. "Last year, I landed my boat sideways at 60mph and split the hull, ultimately writing the boat off. "There is an element of danger involved, but you can't really think about that when you're racing – the whole experience is such an adrenaline rush." John achieved success at the World Championships in a boat called *Relentless*, developed by renowned British designer Adam Younger. "It was a leap of faith as it was a new design, but it's a great boat," says John. "I will take it to Norway in July to defend the title. "It will be very tough – apparently you start racing by heading down a fjord – but I'm really looking forward to the challenge." ■

*John is looking for sponsors for his 2012 title bid. To contact him, email **john.richardson@ocgsy.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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