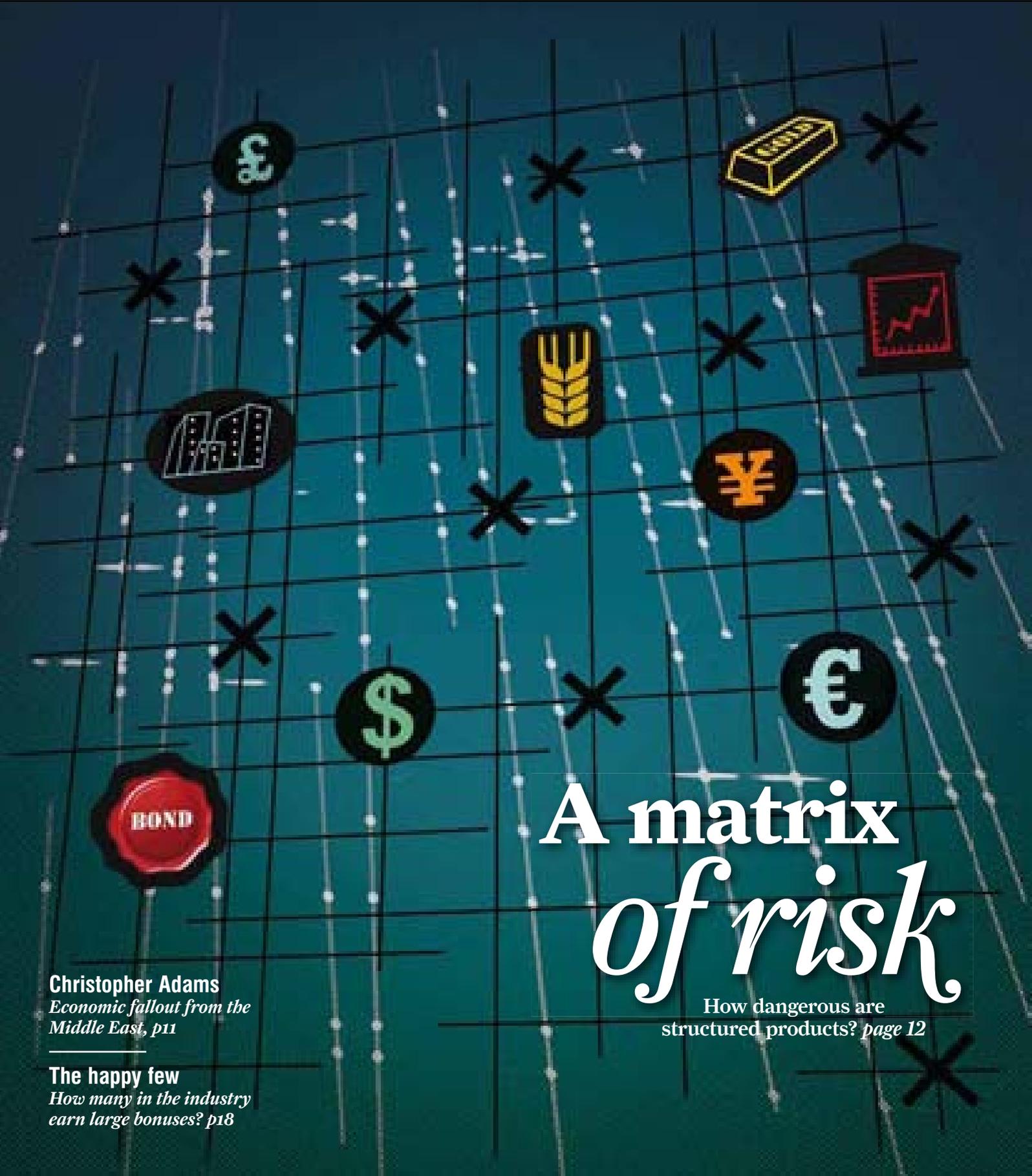


# REVIEW



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

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## A matrix *of risk*

How dangerous are structured products? *page 12*

**Christopher Adams**  
*Economic fallout from the Middle East, p11*

**The happy few**  
*How many in the industry earn large bonuses? p18*



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**Editor**  
Hugo Cox

**Designer**  
Pip Atkinson

**Art Director**  
Steven Gibbon

**Publisher**  
David Poulton

**Agency Managing Editor**  
Molly Bennett

**Production Director**  
John Faulkner

**Managing Director**  
Claire Oldfield

**Chief Executive**  
Martin MacConnol

**Advertising Sales**  
Yanina Stachura  
+44 (0)20 7907 4803  
yanina.stachura@wardour.co.uk

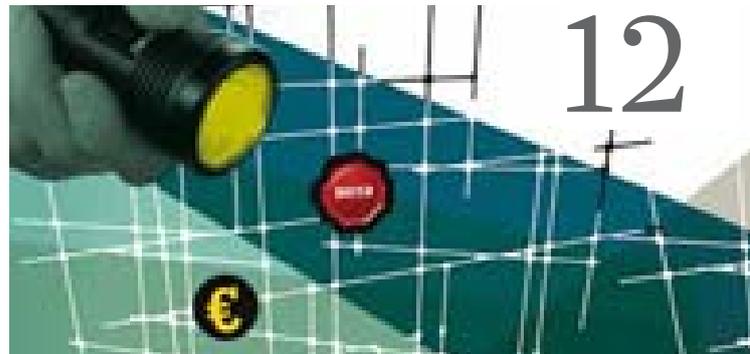
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**Communications Editor, Chartered Institute  
for Securities & Investment**  
Richard Mitchell  
8 Eastcheap, London EC3M 1AE  
Telephone: +44 (0)20 7645 0749  
Email: richard.mitchell@cisi.org

**Editorial panel**

Nick Seaward, Chartered FCSI, <i>Chairman</i>	Institute of Education
Suren Chellappah FCSI	Sanford C Bernstein
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Victoria Hoskins, Chartered FCSI	Barclays Wealth
Paul Loughlin, Chartered MCSI	Rathbone Investment Management
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Nimrod Schwarzmann FCSI	RBS Global Markets
Arjuna Sittampalam Chartered MCSI	Sage & Hermes
Alan Yarrow, Chartered FCSI(Hon)	Chartered Institute for Securities & Investment



## Contents

**Features**

**12 COVER STORY:  
MITIGATING OR  
GENERATING RISK?**  
The market for structured  
products is growing. *Paul  
Melly* asks whether investors  
fully understand them

**16 FINDING THE RIGHT FIT**  
CISI Managing Director  
*Ruth Martin* assesses the  
implications of the new  
Statement of Professional  
Standing for retail  
investment advisers

**18 BONUS OF CONTENTION**  
For most in financial services,  
the annual bonus is a  
relatively small part of  
total compensation, says  
*Tamsin Brown*

**Members' features**

**20 CPD: THE STATE OF  
INFLATION**  
*Oliver Stones* examines  
whether UK inflation is a  
molehill or a mountain

**24 RESTORING TRUST**  
What else can be done to  
increase public confidence  
in financial services?

**26 NEED TO READ**  
Catch up with this  
month's essential reading

**27 DIARY**  
CISI events and new  
member admissions

**30 PEOPLE: SPREADING  
THE WORD**  
*Nick Bealer*, Chartered  
MCSI, and a fleet of  
floating bookshops

**Regulars**

**5 CITY VIEW**  
Will anything be learned from  
the failure of Keydata?

**6 UPFRONT**  
News and views from  
members of the Chartered  
Institute for Securities &  
Investment (CISI), including  
our regular back story by  
*Clay 'Mudlark' Harris*

**11 FIRST PERSON**  
*Christopher Adams* on how  
revolution in the Middle East  
could stall the global  
economic recovery

**22 PROFILE:  
MARK NEALE** of the  
Financial Services  
Compensation Scheme



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# Keydata: is there a silver lining?

CISI OPINION

*The ripples from the demise of Keydata are still spreading through the financial services industry. What lessons should be learned?*

**THE DECISION TO** place Keydata into administration in June 2009 has had a number of far-reaching effects, the extent of which are surprising given the relatively small size of the company itself; not the least of these is the extent to which the industry has been prepared to voice its discontent.

With Keydata compensation costs presently forecast to total £319m, plus an additional £7m of management expenses, it is the sheer scale of these costs that provoked the initial furor. Companies falling within the Financial Services Compensation Scheme's (FSCS) investment intermediary sub-class, in which Keydata was also categorised, have been vociferous in their condemnation of the charges.

However, the fact that the £100m annual limit for this sub-class has been exceeded resulted in the charges spilling into

**Clearly, mistakes were made in relation to this business and the fallout has been considerable**

the investment fund manager sub-class to the tune of £233m. Subsequently there has been a widespread outcry from both sub-classes questioning the fairness of these levies; many have never recommended Keydata products and argue that Keydata was engaged in very different business activities to them. While it may be natural to question whether the current terms of the FSCS funding system and definitions of sub-categories are correct or fair, the simple fact is that these terms were in place at the time of the Keydata failure; they cannot be changed retrospectively to suit the agendas (or pockets) of the industry.

Yet the reaction this levy has elicited indicates that the FSCS rules must be reviewed. Although most in the industry are supportive of the principles of the FSCS, and certainly agree that a duty of care is owed to the underlying client, a few fundamental questions should now be considered. Do the sub-categories accurately reflect the current industry landscape and the risk associated with the different businesses operating within it? Is the existing mechanism for levy allocation appropriate? Should individual accountability for advice affect such charges, and what role should professional indemnity insurance play in the future? Could peer 'regulation' and 'sanction' be harnessed effectively to highlight industry concerns regarding new entrants or products?

## Regulatory reform

The role that future regulation must play in preventing further failures within the UK financial services industry must not be forgotten. There had been considerable speculation regarding the demise of Keydata, without any apparent early intervention. Indeed, a number of industry players have recently called for an independent enquiry into the various circumstances surrounding its collapse and the resulting consequences.

Clearly, mistakes were made in relation to this business and the fallout has been considerable. With regulatory reform already under way, the lessons learned from the failure of Keydata (among others) should be used to ensure that policy changes are considered carefully in order to reduce the potential risk of implementing changes that still do not address the problems that have recently been highlighted. The concerns regarding Keydata are understandable, especially when considered from a wider economic perspective. The financial services industry in the UK has

been tarred by another failure and 19,000-plus investors face stress, uncertainty and, possibly, heavy losses (notwithstanding the FSCS compensation).

## Independent enquiry

It seems inevitable that there will shortly be another misselling 'scandal' that carries with it the risk of further economic woe if those guilty of misselling are unable to meet their obligations. Meanwhile, many in the industry are nursing bruised balance sheets. In addition, the Keydata collapse has impacted detrimentally upon consumer, client and industry confidence in the regulatory system, and also upon the process of compensation. If future policies are to be effective, it is critical that all parties buy into them; this can surely now be achieved only by publicly acknowledging that mistakes were made and lessons will be learned. If handled correctly, an independent enquiry, dealing with both the causes of the collapse and the consequences, will provide an opportunity to consult and engage with the industry to develop a new regulatory framework and associated compensation scheme. Ideally, this will be one that promotes accountability and that all can be confident in. If this can be achieved, then there may be a silver lining in what might otherwise be viewed as the latest costly and unnecessary financial debacle. ■

*See page 22 for our profile of Mark Neale, Chief Executive of the Financial Services Compensation Scheme.*





ASSESSMENT

## Making the grade



Guy Breeden, Chartered MCSI

The first senior wealth management candidate to complete the CISI's new alternative method for assessing the competence of advisers has given positive feedback on his experience.

Guy Breeden, Chartered MCSI, an Executive Director with Quilter in London, took the assessment instead of a traditional exam to

gain the Private Client Investment Advice & Management (PCIAM) Certificate.

The PCIAM Certificate is a level 6 qualification accredited by qualifications regulator Ofqual and approved by the FSA. The alternative assessment provides the same quality assurance, appearing on the approved list of Appropriate Examinations for the Retail Distribution Review (RDR).

Candidates first make a written submission outlining how their experience and prior learning relate to the PCIAM learning outcomes. This submission is assessed by the CISI before candidates can progress to an interview stage, which covers the learning outcomes and a case study of equivalent level and depth to that in the written exam.

The assessment is conducted by trained assessors and takes between two and three hours.

Guy, who has worked in the industry for 27 years, said he found the process rigorous and spent more than 200 hours preparing for the assessment.

"It took me longer than two weeks to be pleased with my written submission before sending it to the CISI. The examiners asked questions about most of the syllabus, and I would caution against turning up for this assessment without having fully learnt the whole syllabus.

"I would recommend this assessment only to senior professionals who are confident speaking in public and able to react quickly to questions."

CISI Managing Director Ruth Martin said: "We are pleased that Guy felt comfortable with the process and congratulate him on his achievement. Existing authorised FSA advisers who prefer an assessment more suited to their professional experience and competence than the traditional written PCIAM exam will have the satisfaction of knowing that they have met the same high standards as their colleagues who have completed the written version."

For further information about the alternative assessment, visit the Qualifications section at [cisi.org](http://cisi.org)

LETTERS

### Postbag

Letters to the *S&IR* can be sent by post to Richard Mitchell, Communications Editor, Chartered Institute for Securities & Investment, 8 Eastcheap, London EC3M 1AE, or to [richard.mitchell@cisi.org](mailto:richard.mitchell@cisi.org)

Dear *S&IR*,  
Further to the City View column (March *S&IR*), retirement age, both State and actual, is an important social and financial lever for Government. I believe it will remain in a state of flux for years to come.

In reality, over 80% of those wishing to work beyond 65 do, so let's not panic. Removing the default retirement age (DRA) should not create a swathe of 'job blockers', with the attendant employment costs.

The wealth management sector has its own 'retirement' challenges. The majority of the nation's wealth is in the hands of the over-50s and, not surprisingly, this

older generation likes to be advised by its peers, where trust, experience and knowledge form the basis of a strong client relationship.

Far more dramatic than the removal of the DRA is the imposition of qualification requirements for advisers under the Retail Distribution Review, without any 'grandfathering'. The regulator's estimate of a reduction of up to 20% in client advisers will be concentrated in this older section of the community and create plenty of opportunity for younger entrants. This will come with the significant burden to employers of having to train up or recruit qualified replacement staff. We should not 'retire' these valuable servants of the industry so readily.

Hamish Rowan-Hamilton (aged under 50!),  
Cofunds, London

AWARDS

## CISI Stephen Cooke Scholarship



Nicolas Greilsamer, left, receives his award from HSBC's Alan Ramsay

Nicolas Greilsamer has won the prestigious CISI Stephen Cooke Scholarship Premier Award.

Nicolas, who is studying for an MSc in International Accounting and Finance at Cass Business School, London, received a £5,000 educational scholarship.

The prize was presented to him at the CISI Annual Awards ceremony at London's Mansion House by Alan Ramsay FCSI(Hon), Head of Compliance, HSBC Bank.

The award is open to students of financial subjects at seven UK universities accredited by the CISI as Centres of Excellence. Entrants wrote an essay recommending the action they feel the UK Banking Commission should take to address the size and range of activities of the banking sector.

Shortlisted candidates then sat a general

knowledge test and panel interview at the CISI.

Nicolas said he was "truly honoured" to win the prize and thanked the CISI and Cass Business School. He added that the competition had allowed him to "dive deep into a complex topic".

"We are going to live with increased financial regulation to prevent systemically important failures, but the debate about how to implement both a macro- and a micro-prudential regulatory framework is far from over," he said.

In addition to the overall prize, the CISI presented General Scholarship Awards to five students. The winners were: Chardin Wese Simen, ICMA Centre, University of Reading; Claire Paterson, Glasgow Caledonian University; Jihyoung Yi, Imperial College Business School; Mashood Iqbal, BPP Law School; and Qiujiu Zhang, University of Exeter.

The scholarship, run by the CISI Educational Trust, is in memory of Stephen Cooke, who died in 1997. He was a member of the board of the Securities Institute (the CISI's forerunner), the London Stock Exchange and the Association of Private Client Investment Managers and Stockbrokers.

An abridged version of Nicolas Greilsamer's winning essay will appear in next month's *S&IR*.

# 5

The number of CISI offices outside the UK. They are in Dubai, Ireland, India, Singapore and Sri Lanka



ASIA

## New Sri Lanka office



CISI Chief Executive Simon Culhane, Chartered FCSI, back row, second left, and Richard Wastcoat, International Committee Chairman, front row, far right, with the Institute's Sri Lanka team

A new international office and operations centre has been opened by the CISI in Colombo, Sri Lanka.

The CISI is responding to demand for qualified and knowledgeable candidates to support Sri Lanka's financial services industry.

Candidates in Sri Lanka can study for and sit several CISI qualifications, including the Investment Operations Certificate (IOC) - formerly known as the Investment Administration

### Strategic alliances have been formed by the CISI in Sri Lanka

Qualification (IAQ) - wealth management and customer-facing exams from its Certificate programme and the CISI's benchmark Islamic Finance Qualification (IFQ).

CISI exams in Sri Lanka will be delivered online via secure internet testing at the offices. Exam delivery facilities are also offered, with a study option at the centres of CISI's accredited training providers.

Strategic alliances have been formed by the CISI in Sri Lanka,

with bodies including the Financial Services Academy of the country's Securities and Exchange Commission and the Sri Lankan Association of Software and Service Companies (SLASSCOM). The objective is to support capacity building for Sri Lanka's financial services industry.

Three training providers have been accredited by the CISI and can offer face-to-face classroom training for its qualifications.

CISI Chief Executive Simon Culhane, Chartered FCSI, said:

"We are pleased to be part of the developing Sri Lankan financial services sector with our qualifications and CPD programmes, and to help the industry build a world-class reputation for excellence."

The office is under the management of Arwa Tapia MCSI, Country Head, Sri Lanka and India, with Brian Selvanayagam as Senior Business Development Manager for the CISI in Sri Lanka.

Guests at the launch event included Dr Sarath Amunugama, Sri Lanka's Senior Minister for International Monetary Co-operation; K.G.D.D. Dheerasinghe, Deputy Governor, Central Bank of Sri Lanka; and John Rankin, British High Commissioner in Sri Lanka.



## 60-second interview

with: **John Bourbon, Chartered FCSI**, Chairman of the Compliance Institute (CI), which is merging with the CISI. Since 1997, the CI has represented and promoted the interests of compliance professionals in the UK.



**Q** What is the impact of the merger?

The UK lacks a strong professional

institute for compliance; the merger creates one.

**Q** How do the CISI and CI complement each other?

There is a natural fit. The CISI focuses on both the back and front office and compliance spans these areas. The CISI has a global presence and, increasingly, the compliance focus is driven by international regulatory standards.

**Q** In which area will the compliance sector see the biggest benefit?

Qualifications. From the CI's launch, we have offered exams leading to industry-recognised

compliance qualifications. The size and resources of the CISI will support the development of the depth of professional qualification that compliance specialists now need.

**Q** What will CI and CISI members gain?

CI members will be able to access the greater resources of the CISI, including CPD, compliance forum meetings and the *Regulatory Update* publication. CI members will bring fresh perspectives about regulation to the CISI and help it to make industry representations.

**Q** What is the biggest challenge facing the compliance profession?

There is a need for ever-increasing standards within an industry that feels smothered by regulatory intervention.

## EVENTS

### CISI Jersey dinner



Ronnie Corbett with Jersey branch President Richard Sayers, Chartered FCSI

Comedian **Ronnie Corbett** raised plenty of laughs when he appeared as guest speaker at the annual dinner of the CISI's Jersey branch. The event, held at L'Horizon Hotel in St Brelade, attracted about 240 guests.

Richard Sayers, Chartered FCSI, who steps down as branch President this month, updated the audience about CISI activities in Jersey, while CISI Managing Director Ruth Martin spoke about the work of the Institute.

A raffle was held that raised more than £4,700 for Jersey Mencap, which supports people with a learning disability. The amount included the raffle winner's donation of their prize: travel vouchers worth £800.

Meanwhile, Belfast Lord Mayor Pat Convery was among the 60 guests who attended the annual dinner of the Institute's Northern Ireland branch. The event, hosted by branch President Annabel Montgomery, Chartered FCSI, was held at Belfast City Hall.

## MEMBER BENEFITS

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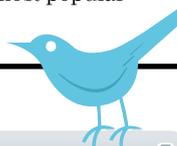
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# 19,865

The number of visits to the exam syllabuses part of the CISI website in February, making it that month's most popular section at [cisi.org](http://cisi.org)

## ONLINE



## BEST OF THE BLOGS

## 1 [bbc.co.uk/blogs/thereporters/robertpeston](http://bbc.co.uk/blogs/thereporters/robertpeston)

With banks now forced to disclose the remuneration of the top five executives below board level, Robert Peston wonders whether shareholders will bother to probe to see if executives are really being paid for performance. If Barclays had invested £100 on 31 December 2005, this would have been worth £53 – including dividends received – at the end of 2010. In this light, asks Peston, “can Bob Diamond be worth the £9m he received in pay and bonuses” this year? In 2007, Barclays’ investors received dividends of 24p per share; in 2010, dividends were just 5.5p per share. “If a 77% cut in the dividend isn’t redolent of management failure, what is – and why haven’t the owners instructed Barclays and the other banks to allocate less wonga for top executives and more for shareholders?” he says.

## 2 [moneyweek.com/blog](http://moneyweek.com/blog)

Merryn Somerset Webb cites new research from Nottingham University that suggests “incentive payments in the form of cash bonuses don’t work – at all”. Knowing that we will get extra money if we do well doesn’t make us work harder, but knowing that we will be fined for poor performance does. How could this be applied to

bankers? Take a banker on a salary of £150,000 who expects the same in bonuses and sets his salary at £300,000, with half of it held over until the end of the year, suggests Webb. “It will then be handed over, minus any fines he might incur along the way for things such as making rubbish deals; bringing the bank into disrepute by spending £10,000 on bottles of wine at client dinners; or inventing complicated derivatives that bring down the world economy. That sort of thing.”

## 3 [management.fortune.cnn.com/2011](http://management.fortune.cnn.com/2011)

Eleanor Bloxham, CEO of The Value Alliance and Corporate Governance Alliance, argues that all bank employees should have their bonuses deferred. Individuals in legal and compliance, for example, are perfect candidates: “The positive and negative results of legal and compliance efforts can and do take a number of years to manifest themselves. And the long-term results of their efforts are critical to preventing future crises.”

## Do you have a blog recommendation?

Please send it to the Editor: [hugo.cox@wardour.co.uk](mailto:hugo.cox@wardour.co.uk)  
For a full analysis of the current bonus debate, see page 18.

## REGIONS

## New West Country President



**Paul Lewis**, Chartered FCSI, has been appointed President of the CISI branch in the West Country. As Branch Director of the Exeter office of Charles Stanley, Paul manages

portfolios for a range of clients, including private individuals in the UK and overseas, charities, health authorities, trusts, pension funds and companies.

Paul said: “I look forward to being able to assist members in promoting the Institute’s core values of integrity and ethics within the industry and welcoming any new members who wish to pursue a career within the investment sector.”

## SURVEY

## Double-dip fear

More than a third of financial services players believe that the UK faces the prospect of a double-dip recession, a CISI survey shows.

The poll was conducted on the CISI website, [cisi.org](http://cisi.org), following news that the UK economy shrank by 0.6% in the last quarter of 2010.

Comments from among the 36% of respondents who fear a double-dip included: “Rampant inflation will reduce consumer spending and the inevitable interest rate rise will be the final nail in the coffin.” Another

## “The inevitable interest rate rise will be the final nail in the coffin”

contributor said: “I’m not sure what branch of economics the coalition Government is following. I’m unaware of any theories that suggest that an aggressive reduction in Government spending, reduction in jobs and general uncertainty about the future would lead to increased GDP.”

By contrast, some respondents said that the shrinking of the economy in the last three months of 2010 was a one-off. One said that it was “a weather-related blip only”, while another commented that “trends matter, not isolated figures”.

To take part in the latest CISI survey, visit [cisi.org](http://cisi.org)



# CLAY 'MUDLARK' HARRIS

gets the back story on Jane McGlashon of Rathbones

Jane McGlashon deals with death and taxes, the brace of certainties first identified by Benjamin Franklin.

When she introduces herself in Rathbone Investment Management's offices in the Port of Liverpool Building, one of the Three Graces overlooking the Mersey on the city's riverfront, there might even be a hint of Monty Python.

"I'm the team leader for deceased accounts," Jane says. You mean dormant accounts? "No, the accounts of people who have died," she replies patiently, accustomed to the question.

Her role is a lesser-known back-office function, but it's a busy one. Rathbones set up 600 estate accounts in 2010.

Jane studied business studies and management at Edge Hill University in Ormskirk, choosing it because it was a "nice open degree". She says: "All along, I never knew what I wanted to be."

When she graduated in 2007, she applied for jobs in and around Liverpool before joining an independent estate agent handling properties in Ormskirk and Southport. She found that too slow-paced and left after less than a year.

Through an agency, Jane found her first job at Rathbones, three years ago, in

unit trust settlements. She immediately felt at home at the firm. "You feel quite safe, even though it's huge."

In due course, however, she felt a "two-year itch" and applied for the internally advertised team leader's role in deceased accounts. "I really wanted to apply my degree. I wanted something a bit different. I didn't know how different it would be until I started it," she admits.

When a Rathbones client dies, Jane's team closes the account once the death certificate is received. The next task is to set up a new one, the estate account,

## "I really wanted to apply my degree"

where assets are frozen until the grant of probate is arranged. This can take up to six months. The team also prepares an official valuation as of the date of death.

The account is in limbo in terms of its contents, but dividends continue to be received. In the case of an ISA, however, any tax reclaims on dividends that were paid after the client died must be repaid to HM Revenue & Customs. That's where death and taxes tie the knot.

Jane is still getting into her job, including the team leadership aspect, which involves conducting appraisals. "Every day can be different," she says, and she's especially grateful to an experienced member of her team on whose advice she can rely.

She has not lost her appetite for learning and self-development. Encouraged by her team leader in the unit trust settlements department, she began studying for the CISI Investment Administration Qualification (IAQ) in late 2009, the moment she became eligible, after passing her first anniversary at Rathbones. "I wanted to keep learning," she says.

Jane was in the second unit of the IAQ, now also known as the Investment Operations Certificate (IOC), when she got her new job. She is now in the third unit, private client administration, and – perhaps fittingly – it is not until the final chapter of that course that the topic of deceased accounts comes up.

Jane thinks it is unlikely that she will be afflicted this time by a two-year itch. "I'm really happy," she says. "I feel like I'm getting pushed. I'm out of my comfort zone, which is good."



Jane McGlashon

Team Leader, Deceased Accounts, Rathbone Investment Management

Do you have a back office story?

✉ [mudlarklives@hotmail.co.uk](mailto:mudlarklives@hotmail.co.uk)

Illustration: Luke Wilson

### FUNDRAISING

## Driving force

Having raised more than £160,000 for a cancer charity from a drive around Britain in his vintage Morgan sports car, CISI member Alan Biggar FCSI is gearing up for a repeat performance.

The retired stockbroker and former Divisional Director of Brewin Dolphin in Edinburgh will set off from Fife, Scotland, on 22 May for a two-week

journey of more than 2,000 miles in aid of Radio Forth's Cash for Kids appeal for disabled and disadvantaged children. Alan will visit 20 radio stations supporting the appeal and ten other locations, including three Brewin Dolphin offices – in Brighton, Truro and Shrewsbury – that did not exist when he toured the firm's 39 sites on his 2008 drive.

Of the money raised, 75% will go to an appeal by the Teenage Cancer Trust, of which Alan is a patron, to improve care for young people with cancer in the east of Scotland. Alan's earlier fundraising efforts for the charity were in memory of Zoë King, 17, who died from cancer. Zoë's mother Sharon works for Brewin Dolphin.

✉ For further details about the Cash for Kids Drive and how to lend your support, visit [forthone.com/cashforkids](http://forthone.com/cashforkids)

### QUALIFICATIONS

## Exam changes name

The CISI's Private Client Administration exam is about to be renamed. From 1 June, the exam will be known as the Administration of Settlement & Investments.

The title change reflects the FSA's rules on client classification, under which 'private client' is now referred to as 'retail client'. This brings the title up to date and ensures that it appeals to both the retail and wholesale markets. The revision will have no impact on the content of the exam. The qualification is part of the Investment Operations Certificate suite of exams, which is also known as the Investment Administration Qualification.

✉ If you have any queries, please contact [qualifications@cisi.org](mailto:qualifications@cisi.org)



Alan Biggar, seated, second from right, with supporters at the event launch



# Ask the experts...

## PENSION BENEFITS

### SWITCHING TO THE CPI AS THE MEASURE OF INDEXATION ON PRIVATE SECTOR OCCUPATIONAL PENSION SCHEMES

The Government has announced that, from April 2011, it intends to link statutory increases of private sector defined-benefit (DB) pensions to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). Pension industry experts estimate that, over the past 20 years, CPI has been, on average, 0.5% lower than RPI, with the result that pension scheme increases may become significantly cheaper to provide for deferred and pensioner members of DB pension schemes.

Clearly, the potential to switch to CPI will be attractive to many employers who continue to wrestle with the funding challenges presented by their DB pension scheme deficits. In particular, many in the pensions industry will have noted with interest BT's announcement last November that the change to CPI indexation wiped £2.9bn off its pension deficit in the previous quarter, while BAE Systems estimated a saving of £348m to its pension scheme as a result of the switch to CPI.

In the opposite corner, of course, are the unions and scheme members, who are concerned that their pensions will be reduced significantly should their employer adopt the CPI measure. To take just one example, we have already seen Unite, the largest trade union in Britain, raise threats of strike action against Ford over the company's plans to use CPI indexation instead of RPI.

The Department for Work and Pensions (DWP) consultation on the proposal to switch to CPI indexation closed on 2 March and the outcome is expected shortly. The Government

has, however, confirmed that it does not, for now, intend to introduce legislation that will override scheme rules. As a result, the current understanding about whether a change to CPI can be made would seem to depend on an interpretation of the relevant scheme's governing documents, as well as compliance with underlying pension legislation that protects members' accrued rights.

In particular, if an employer is looking to switch to CPI instead of RPI, it should bear in mind the following points:

- ◆ Where pension scheme rules refer to indexation being based on the 'statutory minimum' (or similar), the scheme should be able to change the basis for indexation to CPI automatically, because it should simply be able to use the statutory measure of inflation in force for that year (CPI rather than RPI).
- ◆ However, where reference to RPI is 'hard-coded' into the scheme rules, a rule change will be needed. The employer may need to persuade its scheme trustees of the merits of switching to CPI so that they are willing to amend a rule under the scheme's governing documents. Care should also be taken to check whether there are any particular restrictions about how the scheme's power of amendment can be exercised.
- ◆ Given the potential impact on pensions payable under the scheme, the employer may need to undertake consultation with members before making the change to CPI. A further complication could arise if the employer has previously informed members that indexation

will be based on RPI. This might, for example, have been communicated in the pension scheme handbook or another announcement issued to members, so it could give rise to problems if the employer looks to change the basis of indexation now.

◆ Importantly, if a rule change is needed to switch to CPI, consideration will need to be given to section 67 of the Pensions Act 1995, which protects members' accrued rights under a pension scheme. This is because section 67 prevents changes that have an adverse effect on members' accrued benefits, unless the members give their consent. So, in this context, even if it is possible to make a rule change to introduce CPI for future service, it would seem unlikely that employers will be able to change the basis on which they revalue past service.

There are numerous other complications around the change to CPI, not least for pension schemes that provide different benefits under each section. These may have different bases for indexation applicable to the various groups of members, leaving the employer with the headache of how to rationalise benefits across its membership.

We await the outcome of the DWP consultation with great interest. At the very least, however, employers should start to review their scheme rules now so that they know whether they will be in a position to switch to CPI from the next financial year.

Do you have a question on anything from tax to virtual trading? [✉ richard.mitchell@cisi.org](mailto:richard.mitchell@cisi.org)

## QUICK QUIZ

# Test your industry knowledge



Illustration: Cameron Law

The S&I'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 (0)20 7645 0680** or visit [cisi.org](http://cisi.org)

**Q1** Which ONE of the following is a Principle for an Approved Person?

- A) Manage conflicts of interest fairly using Chinese Walls B) Observe proper standards of market conduct C) Communicate in a clear, fair and not misleading manner D) Arrange adequate protection for clients' assets

**Q2** Which ONE of the following is NOT a custody service provided by Euroclear Bank?

- A) Assistance with corporate actions B) Administration of interest, dividend and redemption payments C) Exercise of warrants and other options D) Regulatory reporting

**Q3** Which ONE of the following types of financial institution is MOST likely to offer corporate finance and advisory work in connection with a new share issue?

- A) Custodians B) Fund managers C) Investment banks D) Third party administrators

**Q4** Which ONE of the following could be an example of the placement stage of money laundering?

- A) Cash purchase of a single premium policy B) Encashment of a policy before maturity C) Switch of investment from a unit trust into a gilt D) Sale of units in a unit trust and settlement to a third party

# A toxic cocktail?

If further Middle Eastern unrest triggers more oil price hikes, central banks may be powerless to prevent the economic recovery stalling

**THREE YEARS AGO**, oil prices peaked at nearly \$150 a barrel. They tumbled shortly afterwards as a result of the impending credit crunch, slumping US house prices and the Lehman Brothers collapse. Now, however, prices are rising again. For the first time since the 2003 Iraq war, the world is grappling with an oil supply shock, triggered by trouble in the Middle East.

In the short run, the fate of Muammar Gaddafi's Libya, which produces about 2% of global oil supplies, will determine where prices head next, making markets vulnerable to media-driven moves. Whereas oil prices remained low during the war between Iran and Iraq in the 1980s, today there is a risk of a sustained price rise and damaging knock-on effects for the global economy. The political upheaval in Libya is part of a wider, and unpredictable, phenomenon that could affect oil producers in Algeria, Oman and Yemen. Even Saudi Arabia, while largely prosperous and peaceful, may not be immune. As Stephen King, Chief Economist at HSBC, has argued, we could face a "toxic cocktail" of events.

If the Libyan taps were turned off completely, there is, in theory, enough spare output capacity in Saudi Arabia, traditionally the world's big swing producer, to make up the shortfall. Before the Middle Eastern crisis, spare OPEC capacity stood at about 4.7 million barrels a day, much of this from Saudi Arabia, while Libya exported about 1.5 million barrels a day. The International Energy Agency also holds

strategic stocks for emergency release that could supply two million barrels a day for two years. Yet with low interest rates and high oil demand in emerging markets, the economic impact could be significant should the crude oil price return to \$150. Sustained gains, says Bank of England Governor Mervyn King, would benefit oil producers, while consumers and importers would lose out in a straight redistribution of income.

King warns of even more far-reaching effects, however. "For global demand, what matters more than anything else is the marginal propensity to spend of oil-producing nations relative to oil-consuming nations ... a big increase in oil prices is, thus, likely to dampen global demand," he says. Higher oil prices could damage business and consumer confidence, weakening activity further.

Many consumer-focused companies are already feeling the effects of sharp price gains in other commodities: the US group PepsiCo and the UK-listed Unilever are among those to have faced higher bills. They will either have to absorb higher raw materials costs, suffering reduced profitability, or pass them on to customers. A rising oil price would have much the same effect via energy and fuel bills. In this way, the jump in oil prices works similarly to a rise in indirect taxation. The problem is that many western countries, including the UK, are trying to reduce their huge public deficits, which limits room for manoeuvre on tax cuts. Moreover, higher oil prices

“A sharp and prolonged jump in oil prices could damage growth before recovery has taken hold”

make it harder for central banks to tackle inflationary pressure while keeping interest rates low in order to stimulate recovery.

Central banks in developing economies where inflation has surged have already started raising rates. The European Central Bank has hinted strongly that it, too, may increase the cost of borrowing. Three members of the Bank of England's nine-strong monetary policy committee were in favour of similar action at their February 2011 meeting, though in the US, where core inflation remains very low, rate hikes are less likely.

With governments unable to ease the impact on business and consumers, and central banks getting boxed into policy tightening, a sharp and prolonged jump in oil prices could damage growth before recovery has taken hold. Were unrest to hit Saudi output, all bets would be off. ■

*Christopher Adams is the Financial Times' markets editor*





# Mitigating or generating risk?

Providers say that structured products offer important downside protection and help portfolio risk management. But many see them as dangerously hard to understand and the FSA has concerns. **Paul Melly** investigates

**THE RECENT INDUSTRY** bail-out bill for the failure of Keydata, a structured product provider that missold fixed income 'death bonds' to 30,000 retail investors, has helped reignite a heated debate about the suitability of structured products for both retail and institutional investors. At its most polarised, this pits critics, who claim these are opaque and dangerously complex financial instruments, against banks and investment management firms that believe they are valuable tools to diversify and control risk in portfolios.

Both sides accept that the products now play a significant role in the portfolios of many individual and institutional investors. These instruments combine exposure to the performance of an underlying asset, for

provider, which dictates how the value of the structured investment is influenced by that of the 'underlying' asset or index to which the derivative is providing exposure.

"Structured products are defined investments that are based on a predetermined underlying asset. They mature on predetermined terms and at a date that is fixed from the outset," explains Sophie Barnett, a Vice-President at Morgan Stanley, which offers a range of products. "The return is based on a fixed formula rather than the performance of a fund manager." In the institutional market, supporters argue that, because providers can design products around investors' specific needs, they are valuable tools in meeting precisely the risk-return appetite of

the investor. "Products can be structured carefully to provide a targeted rate of return, in return for sacrificing the possibility of higher-than-expected gains," Barnett explains. "The terms can be set to ensure that an investor outperforms a sluggish low-growth market;

this is achieved by limiting the gains the investor will make if the market does unusually well."

While they remove any flexibility around when investors can exit the products, fixed-term maturities can work well within the planned element of a portfolio for retail investors. Knowing that the structured instrument will mature in a particular year can help, for example, in planning to minimise liability for capital gains tax.

## Dangers

But because structured products are underwritten by banks or investment managers, they carry counterparty risk: the provider is the ultimate guarantor that the

## These products combine exposure to the performance of an underlying asset or basket of assets with downside protection

example a share, or a basket of assets such as shares, commodities or currencies, with some degree of downside protection or capital guarantee. The products provide capital growth or income while also offering full or partial protection of the original investment. Typically, they comprise two elements. The majority of the investor's money is deposited in a bond or cash deposit, which is structured to deliver the initial value of the capital at a fixed maturity date. The growth potential of the product is provided by a derivative that links the return of the product to the performance of an index or asset, such as the FTSE100 or the price of gold. The return characteristic of the product is defined by a formula devised by the





### Who uses structured products, and how

Marc Chamberlain, an Executive Director at Morgan Stanley, explains that there are several layers of user.

“Structured products for retail investors, who usually aim to ‘buy and hold’ until maturity, are provided by IFAs and held within investment plans,” he says. “Next comes the discretionary manager/private client stockbroker business, with specialised staff who have a detailed understanding of structured products. Liquidity is a key concern for this group because they are actively managing and trading assets, often on a daily basis.

“The next layer of the market is the large private banking sector, with dedicated structured product teams. They will be acting on behalf of ultra-high net worth individuals looking to structure deals around a wide variety of investment strategies – for example, inflation, commodities or emerging market currencies. For these clients, speed and nimbleness are priorities.”

Finally, says Chamberlain, there are large institutional investors: “For these participants, the structured product market is part of a wider strategy of using derivatives to hedge their positions, to meet the broad risk and return parameters they have established for their investment strategies. They will buy options as a hedging tool, but generally do not need to buy fully structured and securitised products.”

value of the investment will be maintained within the terms set by its governing formula.

“The collapse of Lehman Brothers focused efforts by providers to reduce this risk. “Since then, we have developed a product where we buy UK Government bonds to cover the initial capital. Then, during the course of the investment’s life, we make daily purchases of bonds to increase the value of this collateral in line with the rising value of the investment itself,” says Barnett.

Besides, notes Ian Lowes, Managing Director of Lowes Financial Management, when these products are provided by major blue chip financial institutions, the counterparty risk is relatively small compared with many equity investments, as measured by their superior credit ratings. “But the FSA remains worried. In its 2009 review, the regulator noted that the failure of a counterparty would have a “catastrophic” impact on the investor in these products. Few structured products are covered by the official Financial Services Compensation Scheme (FSCS); the FSA believes that structured products are not suitable for investors who do not wish to risk their capital or could not afford to sustain losses. Even where they are ready to take on this level of risk, the FSA has suggested that serious consideration should

be given before structured products account for more than 25% of an investor’s portfolio or before any one instrument accounts for more than 10% of the portfolio. “Still more concerning, note many investment managers who are reluctant to recommend structured products to their clients, is their complexity – specifically, the difficulty of seeing how the value of the product is determined. “No investor should ever make an investment that they don’t understand,” says Peter Hargreaves MCSI, co-founder of Hargreaves Lansdown. Especially for the retail investor, the key to the problem is that structured products are opaque: it is hard for investors to see how the return is derived. Investors frequently miss out on the usual benefits that exposure would offer: for example, the products typically do not pay out the dividends provided by the stock to which they are linked. By contrast, investors buying a product such as a unit trust can see how the value is dictated by the performance of the constituent shares and enjoy the usual dividend benefits associated with holding shares. “Product providers claim that they educate the financial advisers who sell their products through training sessions, office visits and extensive media briefings. Most products offered to UK retail investors are based on a familiar benchmark: all Morgan Stanley’s retail products are linked to the FTSE, for example. But Hargreaves insists that many advisers selling these products do not even understand how they work. “This is especially worrying, he believes, given the fact that many of the products are being sold in order to attract retail investors to strategies that essentially represent a reverse bet against widely held institutional views of how the market will move. ‘Retail buyer beware!’ would appear a valuable caveat. ■

### UK retail structured products – Volumes

	2006	2007	2008	2009	2010	2011 YTD
Growth (£m)	£5,232	£6,086	£8,107	£12,171	£11,061	£3,211
Income (£m)	£56	£165	£556	£981	£806	£245
Growth and income (£m)	£1,116	£1,145	£774	£802	£405	£204
<b>Total volumes (£m)</b>	<b>£6,404</b>	<b>£7,396</b>	<b>£9,437</b>	<b>£13,954</b>	<b>£12,237</b>	<b>£3,660</b>

Source: [www.structuredretailproducts.com](http://www.structuredretailproducts.com)

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- Ruth Lea, Economic Adviser, Arbuthnot Banking Group, former Economics Editor at ITN and Head of Policy at the Institute of Directors
- Mark Cooke, Barclays Wealth Chief Risk Officer, Managing Director, Barclays Wealth
- Angela Knight CBE FCSI(Hon), Chief Executive Officer, British Bankers' Association

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# Statement of trust



The FSA has confirmed that retail investment advisers will need to hold a Statement of Professional Standing to show their competence if they want to give independent or restricted advice from January 2013. CISI Managing Director **Ruth Martin** assesses the implications

**MANY FIRMS AND** practitioners across the financial services sector are finalising their plans to implement the final rules on professionalism set out within the Retail Distribution Review (RDR). Higher-level qualifications, adherence to the approved persons regime (APER), a recognised code of conduct and mandatory continuing professional development are all required. But what about the users of investment advice?

The most visible, tangible and concrete change for them will be the Statement of Professional Standing (SPS) that retail investment advisers will need to hold. For the first time, an attempt is being made to offer the user of retail investment advice some hard evidence of professionalism.

#### What will this statement comprise?

For individual advisers, the statement will demonstrate that they have achieved a relevant and approved qualification, completed any gaps in exam standards between their qualification and the new RDR requirements, recorded at least 35 hours of relevant CPD each year (21 hours of which must be structured), complied with APER and adhered to a recognised professional body's code of conduct. They must also have a registration number from the regulator to demonstrate that they are an approved person authorised to undertake the activities of a retail investment adviser. The CISI supports the SPS, as do other professional bodies in the sector.

Each year, retail investment advisers must achieve an SPS, the first one by 1 January 2013. These statements will be issued by an accredited body, which will be directly accountable to the regulator for verifying the standards contained in the SPS. The verification of standards lies at the heart of the RDR professionalism strand and, consequently, organisations need to apply to the regulator to become an accredited body.

To become an accredited body, there are a number of criteria to satisfy, not least demonstrable proof of acting in the public interest, and having appropriate policies, resources and governance in place to ensure a consistent and high-quality outcome. Once accredited bodies have been established, these will be the only organisations permitted to issue the SPS.

The CISI has applied to become an accredited body. The regulator expects to announce the first accredited bodies during the second quarter of this year, and this area

of work – currently conducted by the FSA – will transfer over to the new Financial Conduct Authority. Later this year, perhaps as early as the summer, SPSs might be piloted. An example of what the statement might look like is shown on the opposite page. The statement will be a significant document that signals current professionalism and marks co-operation between firms, individuals, accredited bodies and the regulator. Should an SPS not be issued, the adviser cannot continue to give advice. Importantly, firms have the responsibility to notify the regulator about any issues regarding professional standards in respect of advisers and to share information with the individual's accredited body.

There are some practical details to be resolved once



the first bodies are accredited to offer the SPS, such as timings for applications and ways in which the firm needs to work with the accredited bodies. The trade body, the Association of Private Client Investment Managers and Stockbrokers (APCIMS), for example, believes that the “devil will be in the detail”. Such a statement of competence is commonplace in many sectors. For example, within the accountancy profession, a ‘practising certificate’ is a well-established fact of professional life. CISI Chief Executive Simon Culhane, Chartered



The effect of public outcry and tighter regulation has been a smaller bonus pot this year. But for most in financial services, the annual bonus is a small part of total compensation, says **Tamsin Brown**

# Bonus of contention

**FEW COMMENTATORS WERE** surprised by the public criticism that greeted the latest bonus announcements. It was fuelled by Bank of England Governor – and soon to be head of the new Prudential Regulatory Authority – Mervyn King’s March rebuke to bank executives for taking large bonuses while exploiting “gullible or unsuspecting customers”. Greater transparency around bonuses for senior managers further fuelled the flames, and the impression that anyone working in the Square Mile is taking home a six-figure bonus seems as solid as ever.

Workers in the City are expected to have shared about £7bn in bonuses in 2010, according to the Centre for Economics and Business Research (CEBR). The payouts to the biggest earners hit the news. The Government has not enforced the

full recommendations on bonus disclosure made in Sir David Walker’s 2009 report on corporate governance in the banking sector, which included a requirement to reveal the number of employees receiving more than £1m. But this year, the major investment banks gave greater detail about how much of this pot went to senior bosses. Barclays said its most senior 231 staff shared a hefty £554m pay packet in 2010, equating to an average of £2.4m each; more recently, RBS revealed that its top nine executives received £28m in shares alone. This focus on the very large salaries earned by industry leaders masks the reality of the proportionately much smaller bonuses for the majority of the million people who work in the financial services industry. While HSBC’s 280 top senior managers and risk-takers, such as



## Salaries in middle and back office

### Investment management

Role	Average salary	Bonus range
Client Reporting Manager	£48,000 p/a	0–10%
Client Services Manager	£47,000 p/a	0–15%
Corporate Actions Manager	£50,000 p/a	0–10%
Fund Accounting Manager	£45,000 p/a	0–10%
Senior Performance Analyst	£47,000 p/a	0–10%
Portfolio Analysis Manager	£80,000 p/a	30–60%
Portfolio Analyst	£40,000 p/a	0–15%
Reconciliations Clerk	£30,000 p/a	0–10%
Equity Research Analyst	£50,000 p/a	10–20%
Manager, Unit Trust Administration	£37,000 p/a	0–10%
Settlements Agent	£38,000 p/a	0–10%
Valuations/Pricing Supervisor	£40,000 p/a	0–10%

### Accountancy and finance

Financial Controller (Banking & Investment)	£85,000 p/a	0–50%
Management Accountant, Manager/VP (Banking & Investment)	£85,000 p/a	0–50%
Regulatory Reporting VP (Banking & Investment)	£80,000 p/a	0–30%

Source: Joslin Rowe Salary Review, October 2010

## Home or abroad?

Critics make much of the risk to the UK's competitiveness posed by the new FSA pay rules. "The UK moved further and faster on reforming remuneration than any other jurisdiction," notes Angela Knight FCSI(Hon), Chief Executive of the British Bankers' Association. "A global industry needs to conform to global standards, as any jurisdiction that takes a lighter approach will attract business and staff."

Evidence from HSBC pay data suggests that the UK's leading investment bankers may earn less than their foreign counterparts. HSBC's recent figures showed that a group of 186 of its top UK bankers shared a £172.4m bonus pool – an average of £926,000, while 280 global staff shared a pot of £374m – an average bonus of £1.34m.

But figures from Wall Street suggest larger cuts to bonuses there, despite lighter rules. While overall compensation rose 6% in 2010 compared with the previous year, cash bonuses dropped 9% to a total of \$20.8bn, according to a report from New York State Comptroller Thomas DiNapoli.

traders, shared a \$374m bonus pot in 2010, the average employee in an HSBC branch is understood to have taken home a bonus in the region of £1,500 in 2009 (this year's bonuses have not yet been disclosed).

Between these two extremes lie the majority of employees in financial services. Jonathan Nicholson, Managing Director of recruiters Astbury Marsden, says that a typical middle office worker, such as an equity product controller – typically a qualified accountant with eight years' experience – would earn between £90,000 and £100,000, with a bonus of between £30,000 and £50,000, depending on the firm. He estimates that back office staff will have received bonuses of up to £10,000 this year, if anything.

The relatively modest bonuses for staff outside the front office of major investment banks is evidenced in the box opposite; in the majority of cases, added bonuses, which are virtually never guaranteed, fall in the range of 0% to 20% of base salary.

Belinda Walmsley, Associate Director at Joslin Rowe, works for the recruitment firm that compiled the survey. She agrees that, even in good years, bonuses for these staff rarely exceed £20,000. UK banking's high earners, meanwhile, are facing a reform of the structure of their bonus payments. The FSA's Remuneration Code, revised at the start of the year to apply to a wider group of firms including many asset managers, requires that 50% of bonuses to top management and major risk-takers are paid in shares and that a maximum of 20% of total remuneration should be paid in cash. In addition, those who net a bonus of more than £500,000 must defer 60% of the total sum for three to five years.

In the UK, an employee covered by the code and awarded a £1m bonus would receive £200,000 of that in cash up front (of which 50% would be paid as income tax). On Wall Street, notes Jon Terry, Remuneration Partner at PricewaterhouseCoopers, a banker awarded the same bonus would still have 60% of his or her bonus deferred but would receive £400,000 cash. A colleague in Hong Kong would face no deferral requirement (and tax of 15%). Assessing the impact of the UK rule changes is hard, since total bonus numbers reported for banks fail to account for increases in the size of the

## Assessing the impact of the UK rule changes is hard; total bonus numbers reported for banks fail to account for increases in the size of the sector

sector. Terry believes the new rules have changed the structure, but not the size, of pay packages. "At the senior level, pretty much across banking, we are seeing an increase in base pay: total compensation has stayed the same but bonuses have gone down," he

## Top of the league

Top bankers and Premiership footballers may have little in common, but both have some of the best-paid jobs in the country.

The highest-paid Premiership player in 2009/2010 was Manchester City striker Emmanuel Adebayor (currently on loan to Real Madrid), who earned an annual salary of €8.5m (£6.8m), according to a report by Portuguese marketing agency Futebol Finance. He was closely followed by fellow Manchester City player Carlos Tevez, who took home €8m (£6.8m), the report said.

The figures are surprisingly similar to those for HSBC's five highest-paid members of staff, who between them earned £34.3m in 2010, equating to an average salary of £6.86m. These include traders. The five highest-paid senior executives, not including board members, shared £12.3m. But the salaries of the equivalent group at Barclays ranged from £3.7m to £10.9m.

A key difference between the two industries' finances is the ratio between revenues and the amount of money spent on wages. Premiership clubs pour a far higher percentage of their revenues into wages. A study by Deloitte found that £1.33bn of the clubs' £1.98bn revenues in 2008/2009 went on wages, giving a wages/revenue ratio of 67%.

Compare that with 34% at Royal Bank of Scotland's investment bank in 2010 and 23% at HSBC's investment banking division. Deloitte's report showed that Premiership clubs' wage bills had recorded double-digit percentage growth for the previous three years. Worryingly, over the same period, their profits have fallen by more than half, to £79m.

notes, adding that, for those outside the top bracket, pay structures have changed little.

He estimates that the City bonus pool has fallen by between £1bn and £2bn this year; the CEBR estimates a smaller drop of £343m, or 5% of the total.

But if total compensation remains steady, smaller bonuses look like a cosmetic concession at best. What's more, forcing employers to increase the fixed costs of annual salaries decreases firms' ability to adjust to the economic cycle. If base salaries are making up a larger portion of bankers'

compensation packages, the argument goes, then jobs, rather than bonuses, will be cut in difficult times. And those remaining will end up with higher salaries than they would under a bonus-skewed regime where lean years mean lean bonuses and lean overall compensation. ■

# The state *of inflation*

Is UK inflation a molehill or a mountain? **Oliver Stones**, from Quilter, examines the competing arguments and gives his verdict

**IN JANUARY, THE** M&G 'Bond Vigilantes' blogged that "the increase in inflationary articles has almost been as dramatic as the increase in inflation itself". So why are we all writing about it? The answer, I suspect, is deep confusion.

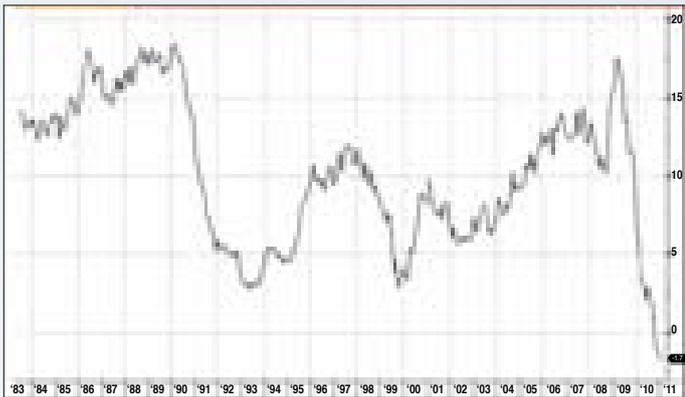
The question of why the UK inflation rate is more than twice that of the US and Europe cannot be easily answered. I have yet to read a convincing piece of research that truly explains this glaring disparity. Many blame the UK's position on sterling weakness; some point to global commodity spikes and world food production shortages, while others fear that the post-quantitative easing ramifications of printing £200bn of new money must be hyper-inflationary. But will they be? Or should we ask instead: when will they be? So far, the M4 money (cash held outside banks) supply has shown no signs of growing. On the contrary, it is currently at a historic low. It is far from clear whether inflation is genuinely a problem in the UK today or, more importantly, whether it will be in the future. Do we believe the Bank of England when it tells us that the current high inflation numbers will return to the 2% target over the next two years? Or should we listen instead to the Confederation of British Industry (CBI), which maintains that the average rate of UK inflation for 2011 will be as high as 3.9%?

## The output gap

Let's examine the Bank of England's argument. To do so, we must consider the output gap, or gross domestic product (GDP) gap, which is the difference between potential GDP and actual GDP (or actual output). The calculation is  $Y - Y^*$ , where  $Y$  is the actual output and  $Y^*$  the potential output. If this calculation yields a positive number, it is called an 'inflationary gap', indicating that the growth of aggregate demand has outpaced the growth of aggregate supply, possibly leading in turn to higher inflation. A negative number, or 'recessionary gap', possibly leads to deflation.

While the Bank of England has been wary of deflation throughout the financial crisis, this is no longer its greatest fear. It is the fear of a recessionary gap that is now driving the Bank's policy. Is the Bank of England right? You have to have a certain amount of sympathy with the logic. The Q4 2010 UK GDP numbers showed a fall of -0.6% in the UK economy compared with Q3, shocking many who were expecting +0.5%. Arguably, this figure suggested that the Bank had been finally vindicated in its insistence that the Consumer Prices Index (CPI) would fall in line with GDP. But the politicians were quick to counter that the figure was a one-off aberration, to be blamed on the poor weather in December. Markets remain unconvinced that the Bank is correct in its downbeat





UK money supply over 28 years, % increase year-on-year (source: Bloomberg)



UK unemployment over ten years, % of labour force (source: Bloomberg)

prediction about UK growth and inflation; no one is expecting a double-dip recession in terms of a consecutive negative GDP number in Q1 2011. The consensus expects a positive +0.6% quarter on quarter, with a modest annualised growth rate of 1.8% for 2011 as a whole. Despite these moderate growth numbers, UK inflation remains resiliently above the Bank of England's 2% target, prompting regular formal written exchanges between Bank of England Governor Mervyn King and the Chancellor of the Exchequer to explain why CPI is more than 1% above target.

### Speculation

More than a few take the Government's conspicuous silence on the subject of high inflation as a plan to reduce the national debt burden with a single wave of the inflation wand, thereby inflating the debt away. Whether or not politicians are involved, this would be a relatively simple way of reducing a national debt figure that has risen to almost £1trn. On the face of it, the coalition Government's stated policy for reducing this debt burden, with the emphasis more on spending cuts than

discussed one already, in the current speculation that the debt burden might be reduced in real terms through the effects of inflation. For example, a mortgage on a house bought 20 years ago would have been inflated to a fraction of what it would cost you today without you necessarily having repaid a penny. Moderate inflation is also the bedfellow of strong economic growth. This encourages higher official interest rates, which will in turn benefit savers (often the elderly), as well as encouraging investment in non-monetary capital projects. It is for this reason that the Bank of England's Monetary Policy Committee has set the target for inflation at 2% and not 0%. A moderate and steady rate of inflation will reduce the severity of an economic recession by enabling the labour market to adjust more quickly to a downturn. This, in turn, reduces the risk that a liquidity trap might prevent central bank monetary policy from stabilising the economy. Unfortunately, 4.0% CPI and 5.1% Retail Prices Index hardly constitute moderate inflation; the only steady thing about these figures is that they are steadily high!

### Impact on employment

The output gap will eventually provide the impetus to keep the lid on high-street prices and unemployment in the UK. Okun's Law shows the correlation between unemployment and GDP and, therefore, the output gap. It states that, for every 1% increase in cyclical unemployment (natural rate of employment minus actual employment), GDP will decrease by X%. UK unemployment shows no sign of slowing and there could be up to 250,000 unemployed public-sector workers. Although the CBI states that the private sector will eventually soak up the surplus, it will be a slow process and will weigh heavily on growth and the UK economy in the interim. Other austerity measures will hit household spending at just the same time that households are trying to deleverage their mountain of debt. This will also hit personal consumption hard. However, as long as the Government does not increase VAT again this year and the UK can keep its head above the recessionary waters with a positive Q1 GDP number, inflation should be neither a molehill nor a mountain. A range of 2.5%–2.75% would be acceptable to both the Bank of England and the CBI. ■

## In most instances, inflation is a 'bad thing', but it's a question of scale

tax increases, should be a successful way to avoid future inflation. And, with the exception of January's VAT increase to 20%, the Government has tried to avoid tax-fuelled inflation, fearing higher wage demands. Wage-demand inflation is generally considered the worst and most destructive type of inflation. Although wage inflation in the UK has been conspicuously quiet, with the public sector leading the way through a mandatory two-year pay freeze, many anticipate problems from the trade unions, possibly as early as this year. It is extremely unlikely that the Government would actively encourage higher inflation, but it is not unreasonable to see it as a benign onlooker, doing little to stem it.

### Pros and cons

In most instances, inflation is a 'bad thing', but it's a question of scale. High inflation acts as a strong disincentive to save or invest, as it erodes both the future value and purchasing power of money. It can also lead to shortages of goods if consumers start to hoard due to concerns that prices will increase significantly in the imminent future. So are there any positive elements to inflation? We have

Oliver Stones is Head of Fixed Income at Quilter.



Quilter



## *CV snapshot*

**2010** – Chief Executive, Financial Services Compensation Scheme

**2005** – Director General, Budget, Tax and Welfare, HM Treasury

**2003** – Director General, Security, Organised Crime and International, Home Office

**2001** – Director, Children and Housing, Department for Work and Pensions

**2000** – Finance Director, Employment Service

**1998** – Works on New Deal at the Department for Education and Employment

**1981** – Joins Civil Service, works across Civil Service, Education and HM Treasury

**1979** – BA Modern History, Oxford

# *The compensator*

Mark Neale, Chief Executive of the Financial Services Compensation Scheme, tells **Hugo Cox** about funding the levy and why investors should be better informed

**WHEN MARK NEALE** talks about the “fluctuating workload” that his job involves, it’s something of an understatement. In 2008, following the financial crisis and the collapse of five banks, including Northern Rock, the Financial Services Compensation Scheme (FSCS), of which Neale is Chief Executive, paid out more than £20bn to four million depositors. After challenging years in 2009 and 2010, in January this year it announced an interim levy to cover the collapse of Keydata, which was closed by the FSA in 2009, having sold more than 19,000 savings plans to investors without making them aware of the risks. The £326m pot helped boost the £148m general levy that the FSCS raised last March and included provision for £247m of compensation for Keydata customers.

When the IFA payments tripped the threshold set for that sector’s contribution – the first time this has happened – the burden spread to investment fund managers, leaving them particularly stung. Neale recognises that they are upset about the levy, but takes pains to stress the importance of maintaining a sufficiently well-funded scheme. “It’s very important that the public maintain confidence in financial services generally – and in investment managers and intermediaries in particular. We appreciate how hard it is for levy-payers to absorb these big costs, but on the other side of the equation are the elderly investors who have lost money,” he notes. Neale notes that the principle of cross-subsidy is used across the industry to ensure that blow-ups do not wipe out an entire section of the industry all at one time. “It’s easy for a section of the industry that feels it wasn’t involved in a failure to want to draw the boundaries with themselves outside,” he explains. “When there is a failure in their sector, however, this would leave them very exposed.”

Precisely how the burden is spread is decided by the FSA, not the FSCS. The current rules were set in 2008 after consultation with the industry and reflect the amount

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***“We appreciate how hard it is for levy-payers to absorb these big costs, but on the other side of the equation are the elderly investors who have lost money”***

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it was agreed that different segments of the industry could absorb in one year. The FSA began a review of relative contributions last year but halted it when the European Commission started to prepare legislation on depositor and investor protection. One element that Brussels must consider is whether compensation schemes should be funded through pre-funding rather than current after-the-event levies. Pre-funding would provide participants with a predictable levy each year, and means that businesses that fail would have contributed to the cost of bailing themselves out. “On the other hand,” notes Neale, “we could find ourselves taking money out of the industry for many years without using it.”

#### **Good advertisement?**

In the light of the recent large interim levy, the £4m that the FSCS spent on a consumer advertising campaign, which launched in early January, has attracted attention from IFAs. The campaign, which includes a television advertisement made by *Wallace and Gromit* creators Aardman Animation, aims to raise awareness of the protection that the FSCS provides in the face of limited public understanding.

“Before we launched the campaign, fewer than half of consumers knew there was any compensation scheme

at all,” he says. In 2008, 20% of consumers knew about the FSCS itself, compared with 9% in 2009 and 3% in 2010.

Limited awareness has material consequences, noted the FSA in its January 2009 Consumer Research report: “One factor that may have contributed to the queues outside branches of Northern Rock in September 2007 was that many consumers were unaware of the existence of a financial compensation scheme and how it operated.”

The object of the campaign is to prompt consumers to ask questions of their providers regarding what protection individual products enjoy from the FSCS. “This is important because certain products can be packaged in different ways, each with a different level of protection,” notes Neale, listing cash deposits, insurance bonds and investment products as three examples. The existence of the FSCS, he stresses, does not abolish the principle of ‘buyer beware’; on the contrary, the campaign fits within the wider goal of improving financial education. If this goal is achieved, Neale can hope for a slightly less bumpy workload. Until then, it will be as unpredictable as ever. ■

### ***Civil servant economist***

Neale’s first job after university, which he was offered a week before the 1979 general election, almost never materialised. “Margaret Thatcher put a moratorium on civil service recruitment, so I went off to do a doctoral thesis on the French revolution,” he explains.

He finally entered the service a year later, working for a short-lived department devoted to overseeing government administration (the current Government is looking at restoring the idea). He specialised, as much as the civil service allows this, in economic policy, labour markets and welfare policy. This included responsibility for labour policy around the New Deal, an initiative introduced by the new Labour Government in 1998 that targeted training and subsidised employment and voluntary work for the unemployed. That led to a stint as Finance Director of the Employment Service.

“We should never fall into the trap of thinking that the jobs aren’t there: even when times are tough, there are a huge number coming up around the country all the time. The key to a successful labour market policy is to help people who are unemployed or inactive to re-engage with the labour market and compete for those jobs,” he says.

Neale agrees that the UK’s flexible labour market stood the country in good stead during the financial crisis and downturn, when employment shrank less than GDP, and that the policy of successive governments helped build in that elasticity.

Which has been his toughest role? “All have had their challenges,” he responds diplomatically. But in his list of recent responsibilities, “working with HM Revenue & Customs to ensure the tax system responded appropriately to the fiscal challenges without stifling economic growth” sounds particularly tough.

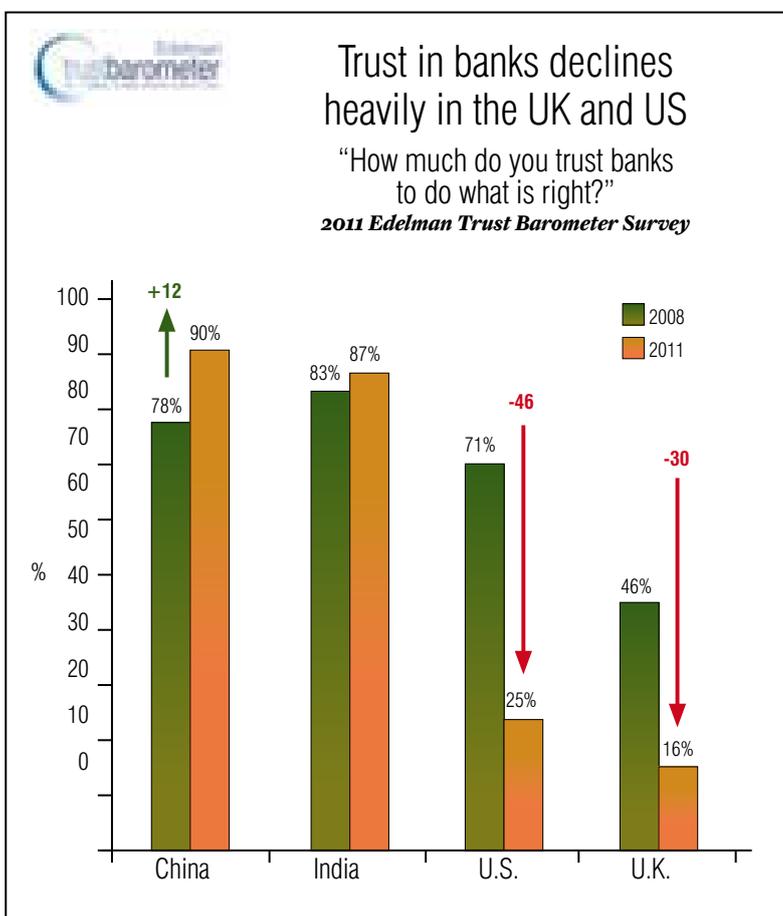
His advice to younger professionals would seem to apply as much to his recent colleagues in the Home Office’s counter-terrorism office as to peers at the FSA considering where the next systemic risk may come from. He offers: “No question is too stupid to ask, and always challenge the orthodoxy. If the financial crisis teaches us anything, it’s the importance of having people who are prepared to stand outside the received wisdom and ask the difficult questions. If something looks too good to be true, it’s not true.”

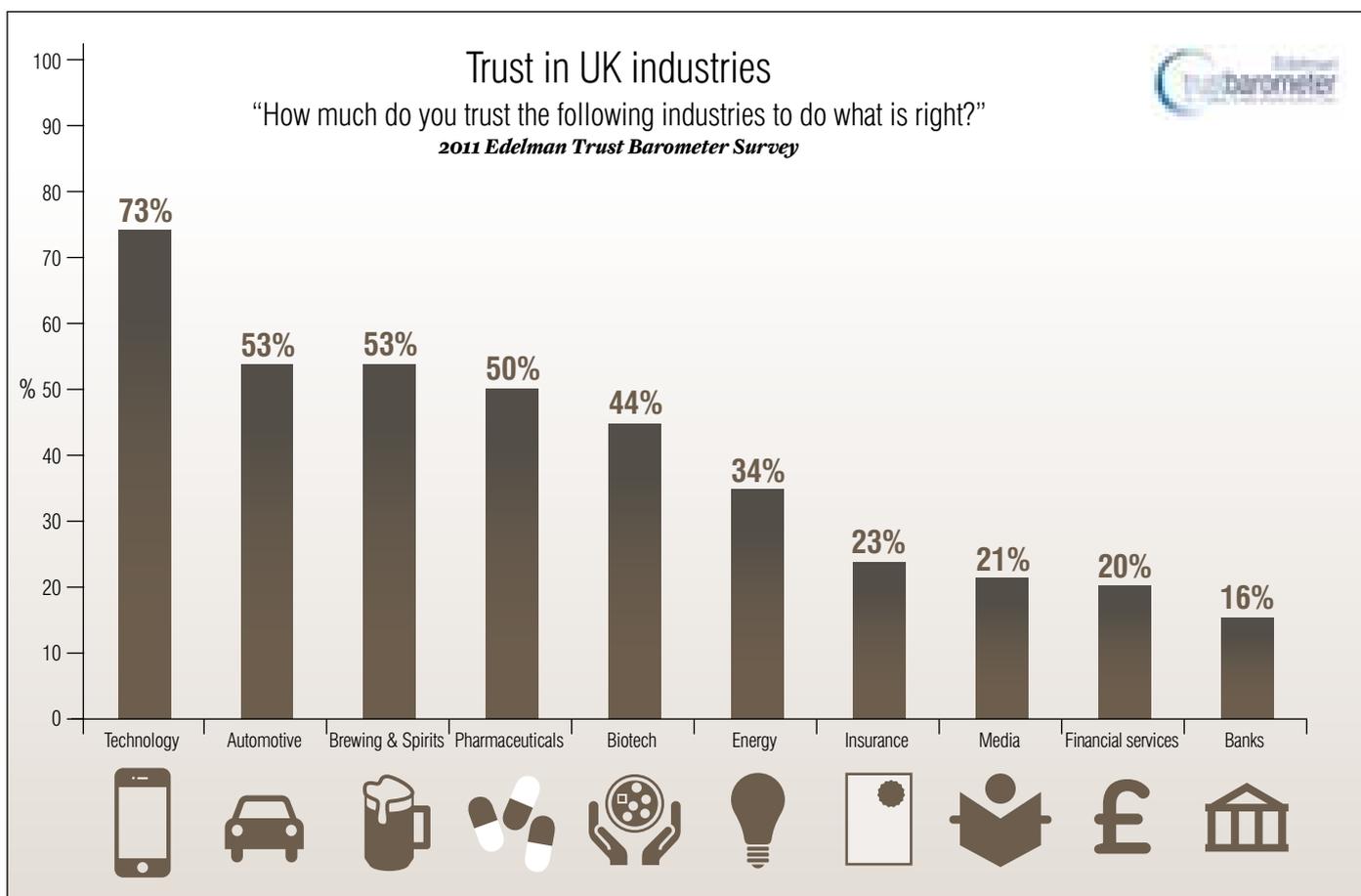
# Restoring trust, a continuing challenge

Efforts to restore public confidence in financial services continue to face real obstacles. **Andrew Hall**, the CISI's Head of Professional Standards, asks what else can be done

**THE FIRST QUARTER** of the year sees the media spotlight turn, once again, to the banking industry as the scale of bankers' bonuses awarded for the previous year's performances is made public, to predictable and perhaps not undeserved howls of outrage from almost every corner of society. At the same time, another harbinger of spring appears in the form of the annual Edelman Trust Barometer, a global survey undertaken by the eponymous public relations firm. For those working in financial services, the 2011 survey (illustrated, right) makes sobering reading. It is perhaps worthwhile considering

why this might be and what, if anything, we can do to reverse this trend. The survey reveals a worryingly low level of trust of 16% in banks in the UK, suggesting a malaise that, in any less central industry, would prove terminal. It might be sensible to look at it in that light, but is there any evidence that these concerns have been acknowledged by the leaders of the industry? What is being done to address them and does this have the slightest impact upon public perception? It is probably not an exaggeration to suggest that the level of bankers' bonuses remains a running sore with the British public and it matters not one whit whether the bonuses are paid in cash, conditional IOUs or Mars bars. The headline figure of the 'bonus pot' is what catches the eye and sticks in people's minds. The lengthy negotiations between banks and the Government under the Project Merlin banner, for which the banks might reasonably have expected some positive comment, have been characterised to a large extent as a trade-off between lending to deserving but cash-starved businesses and the payment of bonuses. All this is characterised as a struggle between good and evil. There have been numerous surveys and comments that highlight the importance, or value, of trust. One of the headlines of the Edelman 2011 survey was that "globally, trust increases in all institutions", which should make the heavily negative view of our industry all the more concerning. But attempts have been - and continue to be - made to redirect the focus of attention from entirely negative to more positive perspectives, including the value of financial services to the nation in terms of tax contributions, dividend payments and employment. However, these efforts are not helped by the fact that government policy has, for some time, appeared hostile towards the financial services industry. It is perhaps a moot point whether it is leading or following; the Edelman survey shows that 82% of respondents feel that the Government should regulate corporations' activities to ensure business behaves responsibly. This is the highest percentage of any major economy surveyed and may be compared with Germany and France at 49% and 50% respectively. Any suggestion from the Government that bankers have some redeeming features should be seized upon, without slackening banks' efforts towards rehabilitation. It is disappointing when government ministers continue to bash banks over the





payment of UK corporation tax, when the Government makes the rules and knows that all companies endeavour to minimise their tax liabilities. This approach ignores significant UK tax paid in other forms by the industry.

#### What's to be done?

What, then, can banks and financial services firms do to restore trust in the industry? Is there anything that can be done, short of self-destruction, that will restore them to a state of grudging acceptance, or even the status of a necessary evil, in the minds of the great British public?

In measuring what matters for corporate reputation, the Edelman survey highlights a number of key

***A 16% level of trust in banks in the UK suggests a malaise that, in any less central industry, would prove terminal***

attributes, which include Quality, Transparency, Trust and Employee Welfare. How would your own bank, insurer or financial adviser score against these measures and would you rate them highly on any? How would you judge your own employer? The phrase ‘tone from the top’ is frequently quoted in the context of developing an aura of trust and integrity within an organisation and in its relationship with its customers and society. There is no doubt that it frames public perception, since the Chairman or Chief Executive is usually the public face of the organisation. But the message must be displayed consistently. Douglas Flint, Chairman of HSBC, has yet to develop the positive public profile of his predecessor

Stephen Green and, while Bob Diamond at Barclays certainly has as high a profile as John Varley, it may not be in quite the manner that he would wish.

Most readers of this article probably work in sectors better described as financial advice/financial services, rather than in banking *per se*. You would think that this would afford us a different profile, but according to Edelman research it does not. Whether we like it or not, one of the aims of the Retail Distribution Review (RDR) is to address, in the words of the FSA, “insufficient consumer trust and confidence in the products and services supplied by the market”. This suggests that there exists quite a difference of opinion about the industry’s performance, depending on which side of the desk you sit. The CISI mission statement sets out its position unequivocally: *to set standards of professional excellence and integrity for the securities and investment industry, providing qualifications and promoting the highest level of competence to our members, individuals and firms*. This aim is given a significant boost by the requirements of the RDR, which is seeking to raise standards of professionalism within the industry. The CISI is a keen advocate of this and believes that it should extend to those activities not subject to the RDR.

The RDR imposes a *de facto* requirement upon advisers to be members of a professional body. This entails a real cost to those who fail to adhere to the requirements of the CISI’s newly revised code of conduct and membership regulations. The CISI and its fellow professional bodies will be expected to maintain their standards with a demonstrably increased rigour; individuals’ failure to live up to these standards can be a career-threatening event. It is to be hoped that such visible instances of the industry putting its own house in order will be a start in turning the tide of distrust and cynicism that exists towards the industry. Hopefully, we shall not follow the watery example of King Canute. ■

# Need to Read

The latest publications and study aids supporting CISI qualifications

## NEW WORKBOOK



### Private Client Advice

This new level 5 unit, part of the level 4 Investment Advice Diploma, has been developed to provide employees advising on packaged products with the planning skills for financial protection, pensions and retirement, building on the core knowledge gained from the FSA Regulation & Professional Integrity

and Investment, Risk & Taxation units.

The first edition of the Private Client Advice workbook (with a first exam date of 1 June 2011) covers:

- financial planning
- pensions and retirement planning
- application of knowledge and understanding.

**Price: £75**

## NEW WORKBOOK EDITION



### Introduction to Securities & Investment

A new edition (covering exams from 1 July 2011 to 30 June 2012) of the CISI's Introduction to Securities & Investment workbook is due out in April. It will provide an ideal introduction to the world of financial services. Topics will include the economic environment and the participants in the financial services industry, asset

classes, derivatives, equities, bonds, investment funds, investment wrappers and the financial services regulatory environment.

This workbook will fulfil the syllabus requirements of:

- the Introduction to Investment Award
- the Investment Operations Certificate (IOC), also known as the Investment Administration Qualification (IAQ), unit 1.

**Price: £75**

## NEW WORKBOOK EDITION



### Derivatives

The aim of Derivatives is to ensure that individuals develop an understanding of the technical aspects of financial and commodity derivatives so that their employers may seek approved person status

for them to advise and deal in the derivatives markets. A new edition of the Derivatives workbook (covering exams from 11 July 2011 to 10 July 2012) is due out in April and will cover:

- introduction to derivatives
- underlying markets
- financial futures and options
- principles of exchange-traded futures and options
- principles of over-the-counter (OTC) derivatives
- principles of clearing
- delivery and settlement
- trading, hedging and investment strategies
- special regulatory requirements.

**Price: £75**

## NEW WORKBOOK EDITION



### Financial Derivatives

Financial Derivatives is a professional-level exam covering the characteristics of derivatives, including forwards, futures, swaps and others traded in the UK, their relationship to

the underlying cash securities and their use in achieving investment objectives.

A new edition of the Financial Derivatives workbook (covering exams from 11 July 2011 to 10 July 2012) is due out in April and will cover:

- introduction to derivatives
- financial futures and options
- principles of exchange-traded futures and options
- principles of OTC derivatives
- principles of clearing and margin
- trading, hedging and investment strategies
- special regulatory requirements.

**Price: £75**

## TWO NEW WORKBOOK EDITIONS



### Advanced Certificate Advanced Global Securities Operations (AGSO)

The Advanced Certificate in Global Securities Operations is aimed at individuals working in operations and/or administration who are seeking

to develop their professional and technical skills as operations specialists in the financial services industry. A new edition of the AGSO workbook (with a first exam date of 23 June 2011) is out now.

**Price: £75**

### Advanced Operational Risk (AOR)

The Advanced Certificate in Operational Risk will appeal to staff regardless of their industry sector, as it enables them to understand the risks firms face and the means to mitigate them. A new edition of the AOR workbook (with a first exam date of 22 June 2011) is out now.

**Price: £25**

## THREE NEW WORKBOOKS



### Wealth Management

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

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

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

Workbooks for each of these three units are out now.

**Price: £150 each**

## 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 continuing learning.

The product comprises more than 25 modules, including:

- anti-money laundering
- corporate actions
- investment principles & risk
- market abuse
- professional taxation
- training and competence
- the UK regulatory structure.



**Price: Free for all CISI members (excluding student members), otherwise £150 per user. Visit [cisi.org/refresher](http://cisi.org/refresher) for prices or for further information**

## External specialists

CISI workbooks and elearning products are key revision tools for those taking Institute exams.

The Institute is looking for writers and reviewers of CISI questions, and authors for its workbooks. It especially wants to hear from authors and reviewers for its FSA, Principles of Financial Regulation and Financial Markets workbooks.

If you are interested in any of these areas, please email [learningresources@cisi.org](mailto:learningresources@cisi.org) with your CV or call +44(0)20 7645 0750.

The Institute is also searching for specialists in derivatives to write questions for its level 4 Derivatives exam. While technical expertise in the subject matter is required, training will be provided in question writing for multiple-choice exams. A modest fee will be paid for each question supplied.

To register your interest, please contact Iain Worman on +44(0)20 7645 0609 or download the application form available via:

[http://www.sii.org.uk/SII/WEB5/sii\\_files/Qualifications/External%20Specialists/ES\\_Application.pdf](http://www.sii.org.uk/SII/WEB5/sii_files/Qualifications/External%20Specialists/ES_Application.pdf)

# Diary

Events to attend over the coming months



## Conferences

The ideal way to gain practical insights into the latest issues from key regulators and practitioners and to network with industry peers.

### 14 JUNE CISI Annual Conference

Glaziers Hall, London

CISI members can now attend any CISI conference for just £199 (non-members £399). For further details, visit [cisi.org](http://cisi.org), call +44 (0)20 7645 0680 or email [clientservices@cisi.org](mailto:clientservices@cisi.org)



#### CONFERENCE SPONSORSHIP

For information about taking up one of the sponsorship or exhibition opportunities at a conference, please contact Fran Murrells, Head of Professional Development Events on +44 (0)20 7645 0725 or email [fran.murrells@cisi.org](mailto:fran.murrells@cisi.org)

## London CPD Events

### 12 APRIL State Benefits and Investment Planning

CISI, 8 Eastcheap, EC3

### 14 APRIL The Potential Impact of the Mifid Review Against the Backdrop of Other Measures

America Square Conference Centre, 1 America Square, 17 Crosswall, EC3

### 5 MAY Ethics, Culture and Sustainability – a Practical Viewpoint

America Square Conference Centre, 1 America Square, 17 Crosswall, EC3

### 9 MAY Emerging Markets and the Future – Russia

Willis Ltd, 51 Lime Street, EC3

### 11 MAY Confidence Accounting – Fixing a Root Problem in Financial Systems

CISI, 8 Eastcheap, EC3

### 12 MAY Impact Investments: an Emerging Asset Class?

America Square Conference Centre, 1 America Square, 17 Crosswall, EC3

### 17 MAY State Benefits and Investment Planning

CISI, 8 Eastcheap, EC3

### 18 MAY An Outline of the Taxation of Financial Products – Tax Efficiencies and Tax Risks

Grant Thornton UK, 30 Finsbury Square, EC2

### 23 MAY Founders' Series: Luke Johnson of Risk Capital Partners

Willis Ltd, 51 Lime Street, EC3

#### To book:

[cisi.org/onlinebooking](http://cisi.org/onlinebooking) [clientservices@cisi.org](mailto:clientservices@cisi.org) +44 (0)20 7645 0680

## Professional Courses

Venue: London unless otherwise stated

27 APRIL Mastering Communication Skills in Financial Services £495.00

27 APRIL Investment Principles & Risk (PCIAM)\*, half-day (Edinburgh) 295.00

27 APRIL Investment Principles & Risk (IAC)\* (Edinburgh) £495.00

27/28 APRIL Investment Principles & Risk (LSE)\* (Edinburgh) £895.00

3 MAY Investment Principles and Risk (PCIAM)\*, half-day £295.00

3 MAY Investment Principles and Risk (IAC)\* £495.00

3/4 MAY Investment Principles and Risk (LSE)\* £895.00

10 MAY Pensions and Retirement Planning\* £495.00

11/12 MAY Derivatives\* (Manchester) £895.00

18 MAY Securities\* £495.00

24 MAY Introduction to Financial Markets £495.00

7 JUNE Securities\* (Glasgow) £495.00

16 JUNE Operational Risk: Taking it to the Next Level £495.00

22 JUNE Training Competence and Managing Expertise in a Regulated Environment £495.00

28/29 JUNE Understanding Regulation and Compliance £895.00

5 JULY Mastering Communication Skills in Financial Services £495.00

12 JULY Pensions & Retirement Planning\* £495.00

13/14 JULY Derivatives\* (Birmingham) £895.00

19 JULY Anti-Money Laundering and Terrorist Financing Introductory Workshop £495.00

21 JULY Pensions & Retirement Planning\* (Manchester) £495.00

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

## 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:

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## Regional Events

### 9 JUNE Birmingham & West Midlands Annual dinner

Birmingham & West Midlands

Hyatt Regency, 2 Bridge Street, Birmingham

#### To book:

[cisi.org/onlinebooking](http://cisi.org/onlinebooking) [region@cisi.org](mailto:region@cisi.org) +44 (0)20 7645 0652



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Shebang offers a minimum saving of 30% on your home phone calls and at least 20% on line-rental charges compared with BT rates, but at the same quality and service. As a wholesaler of BT, Shebang uses its lines. The deal is available to CISI members through the Select Benefits scheme, which offers a range of exclusive discounts.

These include term life insurance and income protection from LifeSearch, the UK's leading life insurance adviser. LifeSearch gives help, guidance and advice on financial protection in the event that an individual is no longer around or is unable to earn a living. It will ensure that the insurance cover it arranges is provided at the best price possible.

For more information on how to obtain these deals and other savings, visit [cisi.org/memberlogin](http://cisi.org/memberlogin)

*\*Terms and conditions apply. See website for further details. CISI Select Benefits is managed on behalf of the CISI by Parliament Hill Ltd of 127 Cheapside, London, EC2V 6BT. Life insurance advice is provided by LifeSearch Ltd, an Appointed Representative of Baigrie Davies and Company Ltd, which is authorised and regulated by the Financial Services Authority.*

## Forthcoming meetings



**Arun Trivedi**  
Chartered FCSI

The CISI's professional interest forum (PIF) programme is a free continuing professional development (CPD) benefit open to all Fellows, Members, Associates and Affiliate members of the CISI.

There are seven PIFs covering the areas of compliance, corporate finance, Islamic finance, IT, operations, risk and wealth management. Each one meets at least quarterly over lunch in London to

listen to presentations from practitioners and discuss topical issues in a confidential setting. Attendance counts towards 'active' hours on the Institute's CPD Scheme.

Forum member Arun Trivedi, Chartered FCSI, Managing Director of I-Max Services Ltd, says PIF meetings do a "great job" in achieving "transference of knowledge" among practitioners.

To join the 1,150 members already signed up to the forum mailing lists, please email [pifs@cisi.org](mailto:pifs@cisi.org) stating which forum(s) you are interested in.



### Forthcoming meetings include:

#### Islamic Finance Forum

Date: 19 April  
Time: 12.30pm-2pm, including lunch from 12.30pm-1pm  
Venue: CISI, 8 Eastcheap EC3

#### IT Forum

Date: 28 April  
Time: 12.30pm-2pm, including lunch from 1.30pm-2pm  
Venue: Goldman Sachs, River Court, 120 Fleet Street EC4

#### Operations Forum

Date: 10 May  
Time: 12.30pm-2pm, including lunch from 1.30pm-2pm  
Venue: Standard & Poor's, 20 Canada Square, Canary Wharf E14

#### Risk Forum

Date: 12 May  
Time: 12.30pm-2pm, including lunch from 1.30pm-2pm  
Venue: AXA, 7 Newgate Street EC1

More information can be found at [cisi.org/pif](http://cisi.org/pif)

# Tips for logging CPD



With the FSA implementing the Retail Distribution Review, continuing professional development (CPD) will become mandatory for increasing numbers of practitioners. Oliver Taylor, Head of CPD Management at the CISI, provides ten tips on how to log CPD easily and correctly.

- 1 Use the CISI CPD log - it's free for members and easy to use. For individual Chartered status we recognise only CPD logged on our scheme or on firms' schemes that have been accredited by the Institute.
- 2 Think about the CPD activities you are going to undertake over the year. What do you need to learn for your current and future roles? How can you achieve these goals? When do you need to undertake the activities?
- 3 Ensure the activities you are logging meet the CPD scheme requirements. The CISI scheme requires a variety of CPD in

four categories - active, reflective, self-directed and development of others - to be logged and needs the evidence to be verifiable.

- 4 Ensure the activities you are logging are appropriate - the CISI provides members with examples of suitable activities for each CPD category.
- 5 Analyse your activities after the event in the Outcome section of the log. What have you learnt, and what do you need or want to do next as a result of your learning?
- 6 Get in the habit of logging your CPD as soon as you've undertaken it. It's far easier to record CPD as you go through your year than it is to update the log retrospectively at the end of the year.
- 7 Create an accompanying CPD pack as you go along to accompany your log, as

a minimum of 15% of members' CPD packs are audited every year.

- 8 Don't stop logging when you reach 35 hours or the ceiling of an activity, especially if you have undertaken additional CPD activities. When auditing members, the CISI has sometimes had to declare CPD activities as unsuitable. Logging more than 35 hours of CPD gives you a safety net.
- 9 Don't write *War and Peace*! A brief summary of what you did and learnt and where and when you did it is sufficient.
- 10 Undertake CPD activities with the CISI - as well as being a useful source of information, activities will often be free or discounted. These will also be automatically logged, saving you time.

For further information visit [cisi.org/cpd](http://cisi.org/cpd)

## Membership admissions and upgrades

<p><b>MCSI</b> 7City Neil Govier <b>Bank of New York</b> Matthew Coyle <b>Barclays</b> Alexander Dean <b>Bestinvest</b> Holly Merriman <b>Brewin Dolphin</b> Stuart Wood <b>Castlefield</b> Simon Holman <b>CISI</b> Arwa Tapia <b>Ernst &amp; Young</b> John Kut Fiske Gordon Hunting <b>Gillespie MacAndrew</b> Keith Barron <b>Hamilton Kilgour</b> Jacqueline Kilgour <b>HSBC</b> Reamonn O'Sullivan <b>JM Finn</b> Simon Temple-Pedersen <b>James Brearley</b> Aubrey Brocklebank Paul Finnan Christian Gawne <b>Jupiter</b> Oliver Pearson-Lund <b>London SAM</b> Vishalkumar Patel <b>Longley</b> Melissa Longley <b>Maunby</b> Michael Furse <b>MCB Bank</b> Rajesh Kumar <b>McWilliam Partners</b> Robert McWilliam <b>Merrill Lynch</b> Matthew Barrett <b>Nationwide</b> Zahida Parveen <b>Shore Capital</b> Alexandre Abadie <b>Spearpoint</b> Francis Le Maistre <b>Turcan Connell</b> Peter Forrester <b>UBS</b> Jonathan Diamond <b>WH Ireland</b> Paul Sheehan <b>Williams de Broë</b> Robert Catto <b>Others</b> M M Aamed Ameen Marios Pilavakis Darunrat Piyavodilokchai Jehanzaib Rana Dana Russell Gaurav Vaidya</p> <p><b>ACSI</b> Ahmad Abdullah &amp; Goh William Siau <b>AI Mal Capital</b> Narendra Gajria <b>Baigrie Davies &amp; Co.</b> Lee Moran <b>Barclays</b> Jonathan Holland <b>Brewin Dolphin</b> Hannah Creighton <b>Brown Shipley</b> Scott Powell <b>Chadwicks</b> Richard Ross <b>Charles Stanley</b> Edward Chambers <b>Cheviot Partners</b> David Walker <b>Dangote Agrosacks</b> Etim Basse <b>Deutsche Bank</b> Ann Pepper <b>European Investment Management</b> Simon Whitley <b>Evolution</b> Jane Thomas <b>First City Monument Bank</b> Jafaru Marughu <b>Hatton National Bank</b> Tuan Shazuli Raheem <b>HB Markets</b> Matthew Giles</p>	<p><b>HSBC</b> Wayne Beighton <b>JM Finn</b> Emma Cline <b>Johngift Consulting</b> John Osuoha <b>Kleinwort Benson</b> Stefano Finetti Maxine Le Lievre <b>Legal &amp; General</b> Emma Taric <b>Midwestern Oil and Gas</b> Blessing Ayemhere <b>Ministry of Water Resources</b> Ozakafe Ashore <b>Niyi Salau</b> Wasiu Salau <b>Pershing</b> Lee Leung Claire Newman Robert Toogood <b>Rathbone</b> Katie Cresswell <b>Royal Bank of Scotland</b> David Parnell <b>Smith &amp; Williamson</b> Max Trowbridge <b>Stanbic IBTC Bank</b> Christian Egeonu <b>Summit Finance</b> Peter Chiwetalu <b>TD Waterhouse</b> Andrew Westley <b>Union Investment Management</b> Gagan Daphu <b>Others</b> Lookman Amusan Edet Basse Ajaja Framca Okechukwu Igbojekwe Hamish McKenzie Isaiah Mukoro Philip Olatunde Alastair Gordon Pope Abdulahi Saka Catalina-Mihaela Tempeanu</p> <p><b>Chartered FCSI</b> <b>Aberdeen</b> James Laing <b>Alder</b> Sharon Wiblin <b>AXA</b> Martin Collins James Forbes-Wilson Michaela Rayner <b>Banco Espirito Santo</b> Djan Direk <b>Barclays</b> Scott Allan Michael Burgess Andrew Cartwright Iain Davidson Abby Johnson Robert Jones Paul Mefford Alastair Randall Mark Thomas <b>Baring</b> Quintin Ings-Chambers <b>Bestinvest</b> Julian Hall <b>BNP Paribas</b> Nigel Purdy <b>Brewin Dolphin</b> George Angus Vinay Bedi Stephen Clark Mark Cloves Lee Dinsdale David Judge Julian Masters David Moore Michael Murphy Roger Sedgwick Anne Worthington <b>Brown Shipley</b> Peter Stiles <b>Cadogan</b> Nigel Rice <b>CCLA</b> James Bevan Oliver Jones-Davies <b>Channel Islands Stock Exchange</b> Michelle Ferguson Charles Stanley John Adams Phillip Moonie Charteris Ian Williams</p>	<p><b>Chase Cooper</b> Nick Gibson <b>City</b> Helen Angove <b>Close</b> Mark Lewis Peter Marshall Richard Sargent <b>Collins Stewart</b> Paul Stone <b>Complinet</b> Susannah Hammond <b>Cornelian</b> Jeremy Richardson <b>Coutts</b> Mark Evry <b>Credit Suisse</b> Roger Tejwani <b>Cunningham Coates</b> Jonathan Cunningham Emma Sharp David Smith <b>DKI</b> David King <b>Dowgate</b> David Trigg <b>E.I. 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*This list includes membership admissions and upgrades from 23 November to 31 December 2010*



Supporters of GBA Ships on one of the charity's floating bookfairs

# Spreading the word

Nick Bealer, Chartered FCSI, has spread knowledge across the world by taking to the high seas. **Lora Benson** reports



Nick Bealer, Chartered FCSI

**A FLOATING BOOKSTORE** has proved to be a novel way for Nick Bealer to help bring literature to less-developed countries. Nick volunteered as a crew member for a charity that runs a fleet of bookfair ships that offer access to more than 6,000 titles, with some selling at a fraction of their retail value.

After devoting more than two years to travelling the globe with GBA Ships, Nick remains a keen supporter of the charity. He says: "I've visited more than 40 countries in Europe, Central and South America and the Caribbean with the charity and it's been a really rewarding experience. There's a huge appetite for books in less-developed countries, but they are in short supply and can be prohibitively expensive."

Nick has fitted his commitment to the charity around a 32-year career in financial services. He followed in the footsteps of his father, Gerry, who worked in broking. Now his two sons, Chris and Greg, have also joined the industry. Nick has recently been appointed Head of

Corporate Broking at Cornhill Capital in the City of London. He is also a member of the CISI corporate finance professional interest forum. Nick, who considered entering the Church of England ministry in his younger days, was introduced to the charity, a Christian trust, through a friend. Thanks to sponsorship from his church, he joined the GBA Ships crew. "It was a great experience to be a member of the crew. As volunteers came from more

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## *"Books on law and nursing sold massively in Jamaica"*

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than 50 countries, the ships were like a floating United Nations," he says. "We became friends and I have visited my former crewmates all over the world. Dealing with so many cultures has been of great help in my career in terms of relating to clients."

The first ship on which Nick sailed, the Logos, is now a wreck off the coast of Chile, with many of his belongings on it. "I had returned home to the UK early from the ship following a family bereavement

when it ran aground in atrocious weather and hit rocks," he explains. "But not a single crew member was lost or even injured – a testimony to the safety training that the crew all had to do regularly."

### **Language problems**

The Bible is the bestselling book on board, but Nick says that certain titles resonate with different countries: "For instance, books on law and nursing sold massively in Jamaica." Having a grasp of other languages was a bonus on the ships, as Nick discovered. "Once, in Maracaibo, Venezuela, I was going to a meeting to address a group of several thousand on the arrival of the ship. As I had limited understanding of Spanish, a translator came with us. On the journey I understood enough to hear the translator say to another passenger in Spanish: 'So what language is Nicholas speaking?' Sometimes the London accent is not the easiest." In addition to his support for the bookfairs, Nick is involved in the Stock Exchange Veterans, raising money for a raft of small charities. It is holding its annual dinner in the City on 14 April. For further details, go to [stockexchangevets.org](http://stockexchangevets.org) ■

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