

REVIEW



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

cisi.org/sireview

Olympian task

Is the industry making the most of sport sponsorship? *page 12*



Forced decision

Why pensions auto-enrolment is causing headaches for employers, p16

Andrew Tyrie MP

The Chairman of the Treasury Select Committee on regulation and accountability, p18

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Editor
Louise Reip

Commissioning Editor
Hugo Cox

Senior Designer
Pip Atkinson

Art Director
Steven Gibbon

Publisher
David Poulton

Production Director
John Faulkner

Managing Director
Claire Oldfield

Chief Executive
Martin MacConnol

Advertising Sales
Yanina Stachura
+44 20 7010 0945
yanina.stachura@wardour.co.uk

Cover illustration
Scott Chambers for Synergy Art

Published on behalf of the
Chartered Institute for Securities & Investment
by Wardour, 5th Floor, Drury House
34-43 Russell Street
London WC2B 5HA
Telephone: +44 20 7010 0999
Fax: +44 20 7010 0900
www.wardour.co.uk
ISSN: 1357-7069

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

Editorial panel

Nick Seaward, Chartered FCSI, <i>Chairman</i>	Supervision Services Partnership
Suren Chellappah FCSI Moorad Choudhry FCSI	Sanford C Bernstein Royal Bank of Scotland
Simon Cullhane, Chartered FCSI	Chartered Institute for Securities & Investment
Scott Dobbie FCSI(Hon)	Deutsche Bank
Mike Gould FCSI	Russell Investments
Peter Land, Chartered FCSI	Brewin Dolphin
Jeanette Lichner MCSI	Promontory Financial Group
Gregor Logan MCSI	
Paul Loughlin, Chartered MCSI	Rathbone Investment Management
Robert Merrifield FCSI	Legal & General
Richard Mitchell	Chartered Institute for Securities & Investment
Frank Reardon, Chartered FCSI	JM Finn
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Jeremy Robinson, Chartered FCSI	Charles Stanley
Hamish Rowan-Hamilton	TheCityUK
Markus Ruetimann FCSI	Schroder Investment Management
Ninrod Schwarzmann FCSI	RBS Global Markets
Arjuna Sittampalam, Chartered MCSI	Sage & Hermes
Nigel Sydenham, Chartered FCSI	BPP Professional Education
Alan Yarrow, Chartered FCSI(Hon)	Chartered Institute for Securities & Investment



Contents

Features

- 12 A SPORTING CHANCE**
With the Olympics just weeks away, *Rod Newing* looks at changes in the way financial services firms approach sport sponsorship
- 16 DECISION TIME**
Pensions auto-enrolment starts in October. *Beth Holmes* reports on the choices available to employers
- 20 ANOTHER NEW DAWN**
Beth Holmes assesses the prospects for the UK's new tripartite regulatory structure

Members' features

- 22 CPD: FALLING SHORT**
Nick Ivey explains the impact on pensions of quantitative easing and low interest rates
- 24 BONUS POINTS**
This month's Grey Matters dilemma asks how an employee should respond to a one-off cash bonus
- 26 NEED TO READ**
Catch up with this month's essential reading
- 27 DIARY**
CISI events and new member admissions
- 30 PEOPLE: CLIFFHANGER**
Daniel Bland MCSI on his passion for climbing

Regulars

- 5 CITY VIEW**
The threat of fraudulent 'carbon trading' investments requires greater regulation
- 6 UPFRONT**
News and views from members of the CISI, including our regular back story by *Clay 'Mudlark' Harris*
- 11 FIRST PERSON**
Christopher Adams assesses the fallout from the current political upheaval in Greece
- 18 PROFILE: ANDREW TYRIE MP**
The Treasury Select Committee Chairman on going head to head with the Governor of the Bank of England



Average audited circulation: 17,886 for period July 2010 - June 2011

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CISI OPINION

With an increase in carbon-trading fraud, regulators need the power to hold 'green' investment racketeers to account

Carbon cop-out

GREEN IS THE new grey, as far as most regulators are concerned. Bulletin boards and internet chat rooms – as well as advertisements in newspapers that should know better – offer carbon trading and other 'green' investments that promise balm to worthy consciences, keen to help prevent global warming and save humanity, while offering annualised returns of up to 500%. Worthwhile investments? Of course not. This is a grey market that is costing some well-intentioned – if woolly minded – investors dear. But it also opens a window on some much larger potential problems in the wholesale markets, problems of proper management of carbon-trading back offices and of cyber crime.

The boiler rooms that most global regulators have closed down have gone green, targeting gullible punters with what are apparently the fashionable investments *du jour*. The schemes come in various guises and degrees of complication, but, in simple terms, the busy bucket-shop salesmen peddle investments in voluntary-emission reductions schemes, usually based on doing something very worthy, in a very remote place – trees in rainforests are a popular story. Unfortunately for the investor, many of these schemes are not the 'certified' emission reductions that are professionally traded around the world. Their uncertified distant cousins are unlikely to be tradeable at anything like the purchase price – even if they are something other than the figment of a spiv's imagination. Doubly unfortunately for the investor, the UK's FSA has no power in this area. Like other

commodities, carbon trading goes unregulated across most of the globe. Only if the spiv fouls up, and presents the scheme as a collective investment, does the FSA have any power. Most operators are sharper than this.

Close to home

Who cares? The securities and investment industry should. While some of these operators are based in traditionally dodgy offshore centres, where major regulators are powerless and caveat emptor is a fair rule, many are based onshore. Retail investors,

Like other commodities, carbon trading goes unregulated across most of the globe

therefore, have a reasonable right to expect that these firms are legitimate and answerable to a regulator. That they are not opens the City to serious reputational damage. Regulators in Britain and elsewhere need the power to stop this thieving. The FSA receives "many" reports from people who have been approached by firms promoting carbon credits in the UK. Carbon credits can be sold and traded legitimately, and there are many reputable firms operating in the sector. However, the FSA has voiced concerns about

the increasing number of firms using dubious, high-pressure sales tactics and targeting vulnerable customers. Even the proper, certificated market has become a magnet for thieves. Last year, cyber crooks managed to plunder some €60m in certified credits when their owners' (and the carbon regulators') backs were turned. More than one million credits were stolen electronically from the Czech registry operator, for instance, when its building was evacuated due to a bomb scare.

After that incident in January 2011, the whole market was temporarily shut down. Many parts remained closed for weeks due to ongoing fears about their security. The City of London takes a strong interest in this potentially lucrative market – exchanges are believed to have lost more than £500,000 in fees during that temporary blip, and the Corporation of London is protective towards a market which in March last year it estimated to be worth £144bn. Against a market of this size, €60m may seem like small change. But those January 2011 thefts were part of an alarming pattern of sloppy controls in an important market. The professionalism that drives mainstream securities markets should be brought to bear on this fast-growing area. ■





UAE

“World-class professionals” graduate in Dubai



Successful candidates and award attendees. Pictured, front row, sixth to eighth left, are Richard Stockdale, Chartered FCSI, President, CISI UAE National Advisory Council; Kevin Moore, Chartered MCSI, CISI Global Director, Business Development; and Abdulla Al Turifi, FCSI(Hon), CEO, SCA

Fifty financial services professionals have graduated under a CISI-backed qualifications scheme in the UAE.

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

At a ceremony in Dubai, Abdulla Al Turifi, FCSI(Hon), Chief Executive Officer of SCA, presented certificates to the successful candidates. He said that the initiative aimed to provide the industry with “world-class professionals” to support the development of the financial markets sector in the UAE. To

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

The graduates included 25 brokers, trading and operations managers, internal auditors and financial analysts.

Kevin Moore, Chartered MCSI, CISI Global Director for Business Development, said: “The CISI congratulates the graduates for their achievement. We hope their success will act as an inspiration to their colleagues and others working in the country’s financial services sector.”

The award winners were the second batch of graduates under the programme.

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

Dear *S&IR*,

If you are reading this, it is likely that you are one of about one million people working in financial services. The total UK working population is nearly 27 million.

We are fewer than our peak in 2007, when there were 1.25 million of us, but, despite what our detractors say, we are the largest sectoral contributor to the coffers of UK plc. The industry makes up £63bn, or 12.1%, of total Government receipts (2010/11). Our per-capita GDP contribution is more than twice the UK average.

And it’s a team effort. One-third of the jobs are in London, but companies and functions are spread throughout the UK. Edinburgh is the next biggest financial services employer (35,900 employees) and GDP generator (£3.22bn). Birmingham employs the next most (26,500/£1.99bn), but is beaten in GDP contribution by Leeds (24,800/£2.43bn). Manchester (23,400/£1.97bn) and Bristol (24,500/£1.92bn) are not far behind. The top ten cities also include Glasgow, Cardiff, Liverpool and Sheffield.

Hamish Rowan-Hamilton, Director of Financial and Professional Services, TheCityUK, CISI Affiliate member, London

CPD

Risk to the fore in Islamic finance



Dr Hatim El-Tahir MCSI

As the complexity of Sharia’a-compliant debt and equity instruments has evolved in the world of Islamic finance, and new regulatory and governance requirements have emerged, risk management has sometimes struggled to cope.

But a new report from Deloitte’s Middle East Islamic Finance Knowledge Centre (IFKC) suggests that the industry in that region has caught up. The study, by Dr Hatim El-Tahir MCSI, Director of the IFKC, indicates that, of the institutions he surveyed, 79% had established a risk department in the past five years, while only 5% have had one for more than ten years.

“Greater pressure has been placed on financial institutions offering Islamic financial services to galvanise risk exposure and governance capabilities,” said Dr El-Tahir.

Dr El-Tahir will speak about the outcomes and implications of his report at a CPD event in London on 28 June 2012. For more information, and to book your place, please visit cisi.org/capitalcpd

ONLINE

Digital *S&IR* is a hit

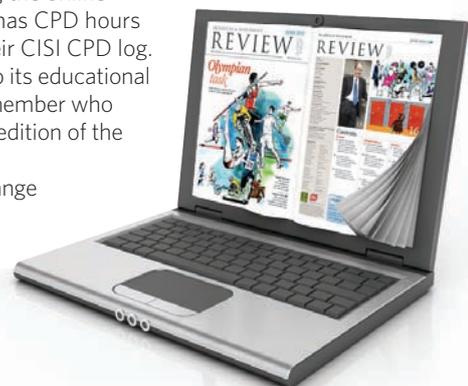
“Useful” and “convenient”. These are among views from CISI members on the new digital magazine format for the online *S&IR*.

Members can now read the magazine on their computer, smartphone or tablet as if they had the printed version in front of them. Anyone accessing the online edition or the app version has CPD hours automatically added to their CISI CPD log.

The CISI will donate £1 to its educational charity for every Institute member who switches to receiving each edition of the *S&IR* only in online format.

Visit cisi.org/mycisi to change your preferences.

For further information about the benefits of accessing the *S&IR* online, see cisi.org/sireviewinfo





SURVEY

IMF loan supported by respondents

The majority of financial services players (60%) believe that the UK is right to continue to support the International Monetary Fund (IMF) to help economies in trouble, a CISI survey shows.

The survey was conducted following Chancellor George Osborne's decision to loan £10bn to the IMF. The Chancellor has been accused of wasting money trying to prop up the troubled eurozone.

A number of supporters of the move argued that it was important that the UK backed the IMF, as it may require such assistance in future. Another said: "It is a loan on which interest will be paid, and it is in the interest of the UK that there is international confidence in the financial markets."

Among the 40% of respondents who opposed the loan, one commented: "In the midst of a double-dip recession and the worst financial crisis the world has seen, the last thing you do is give £10bn to a global monetary fund to help countries that can't be helped in the first place."

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

DESIGNATION

Chartered Fellows reach 2,012



Ali Hassan, Chartered FCSI

Ali Hassan has become the CISI's 2,012th Chartered Fellow.

Ali, Senior Director, Risk Management, works with the Dubai Financial Services Authority (DFSA).

The CISI personally Chartered distinction is achieved by meeting criteria set by the Institute, requiring a clear commitment to both continuing professional development (CPD) and high ethical standards. Personally Chartered members can use the designation of either 'Chartered FCSI' or 'Chartered MCSI', demonstrating their enhanced status within the industry.

To become Chartered, an individual must maintain their professionalism by completing 35 hours of CPD learning.

The criteria include the requirement to log specified years of CPD, based on the level of CISI qualification held. Members must also obtain an 'A' pass in IntegrityMatters, the

CISI's online ethics test.

CISI Chief Executive Simon Culhane, Chartered FCSI, said: "It is appropriate that we mark our 2012th Chartered Fellow this year. This achievement is testament to Ali's and the DFSA's commitment to professionalism, integrity and ethics and demonstrates that he is recognised as being at the pinnacle of his profession."

Ali said: "The world's financial landscape is changing, and the effect of this is the need for us to stay attuned to regulatory developments and market trends. This designation will enable me to further my knowledge and competencies in the financial services industry."

In all, more than 3,900 CISI members from around the world are now personally Chartered, either at Chartered FCSI or Chartered MCSI level. The distinction has been available since the CISI became a Chartered body in 2009.

To find out more about the route to becoming personally Chartered, visit cisi.org/individualcharter



60-second interview

Brian Healy, Chartered FCSI, is Director of Traded Markets, Development, Operations at the Irish Stock Exchange (ISE) in Dublin



Q *Is the Irish economy on the road to recovery?*

Yes. Recovery has been slow but steady, given the difficult global backdrop and the scale of the shock experienced by the economy: a 12.7% decline in GDP between 2007 and 2010, with a rise in the ratio of debt to GDP from 25% to 105%. 2011 provided the first full year of GDP growth since 2007, increasing by almost 1%. Irish competitiveness has improved significantly since 2008 and the EU Commission forecasts a unit labour cost improvement of about 20% relative to the eurozone average since 2009. Exports have performed well; however, the domestic economy has a long way to go following a severe slowdown due not only to national factors but also to the eurozone crisis. Economic recovery is predicted to continue, albeit dependent on external growth.

Q *How well is Ireland coping with its austerity measures and the restructuring of its banking sector?*

Ireland has met all its targets under the three-year programme agreed in 2010 with the International Monetary Fund and the EU, which provided external funding of €67.5bn. This, together with Irish funds of €17.5bn, was allocated to capitalise Irish banks, repay bank and sovereign bondholders and to fund government spending until the end of 2013. A key commitment is to reduce the annual budget deficit to below 3% of GDP by 2015. To that end, budgetary adjustments of €25bn have been made and further measures totalling €8.5bn are planned from 2013 to 2015. A key objective is for Ireland to return to the bond markets. Considerable progress has been achieved on restructuring the banking sector, with welcome signs of the stabilisation of banks: March statistics showed a reduction

of €2.1bn in Irish banks' reliance on European Central Bank borrowings and an increase in bank deposits from household and non-financial corporates. Significant challenges remain, including the need to provide more access to credit for the real economy. In summary, strong progress has been made against challenging market conditions.

Q *How important is the financial services industry to the country?*

The international financial services sector, in particular, is of key importance to the economy, directly employing more than 30,000 people and contributing about 7% to GDP. From a corporate perspective, the ISE continues to build its international business with the launch of a new, pan-European market, the European Wholesale Securities Market, dedicated to issuers of structured debt securities.

Q *What are the main challenges facing the sector?*

Fully correcting the deficit in the national accounts; dealing with the consequences of the eurozone crisis; ensuring appropriate and effective regulation; and developing new areas of business and expertise.

ANNUAL DINNER

Celebrating 20 years

London's Guildhall is the venue for this year's Annual Dinner



Xavier Rolet FCSI(Hon)

London Stock

Exchange Group has agreed to become the exclusive sponsor of this year's CISI London Annual Dinner.

This event will celebrate both the Institute's 20th Anniversary and its 200-year heritage, which can be traced back to the formation of the Stock Exchange. The dinner will take place on 6 September at the beautiful Guildhall in London.

Xavier Rolet FCSI(Hon), Chief Executive, London Stock Exchange Group, said: "We are delighted to be joining the celebrations of the 20th anniversary of the CISI. Together with the CISI and the wider City community,

we have a vital role to play in ensuring that London remains the world's premier financial centre and a source of funding, development and growth for UK companies, both large and small."

The evening will be presided over by CISI Chairman, Alderman and Sheriff Alan Yarrow, Chartered FCSI(Hon), who expressed his delight at the support from London Stock Exchange Group. As in the past, this will be the pre-eminent event in the calendar for the CISI, providing an opportunity to spend the evening with friends, colleagues and clients.

This year's guest speaker will be Lord Green, Minister of State for Trade and Investment and former Group Chairman of HSBC Holdings.

To reserve your seat, visit cisi.org/annualdinner12. For enquiries, email flagshipevents@cisi.org



ONLINE

BEST OF THE BLOGS

1 tinyurl.com/forbes-olympics

Complying with the updated UK Bribery Act sounds simple enough. But the extent to which companies can offer "reasonable and proportionate hospitality" at the 2012 London Olympics without falling foul of the Act is murky, according to Chris Smith. The *forbes.com* writer says: "While the Bribery Act doesn't prohibit companies from offering free giveaways or making facilitation payments to government officials, it has certainly changed the business landscape for companies hoping to profit from the games."

2 tinyurl.com/hine-legal

Sticking with anti-bribery laws, how far can companies go to wine and dine their guests at this year's Olympics? As far as they like, if improving their image, presenting products and services or establishing cordial relations with clients is all they have in mind. Anything more is risky territory, according to Claire Bolton, a solicitor at employment law firm Hine Legal. In a recent blog, Bolton says that companies should review anti-bribery and ethics policies to ensure that all staff and

contractors are aware of the rules. "You can then utilise the Olympics as an example of how bribery could occur," she adds.

3 tinyurl.com/guardian-olympics

McDonald's, Coca-Cola and BP may have paid handsomely to sponsor the 2012 London Olympics, but self-promotion isn't their only reason for getting involved. They're also keen to plug themselves as socially responsible businesses, according to *The Guardian's* Owen Gibson. In his recent blog on the Games, Gibson says that big firms will use the Olympics "as the basis for corporate social responsibility and staff engagement programmes that seek to improve their corporate image or underline their brand values". He then cites BP, which recently honoured some 70 teenagers for completing a four-year mentoring programme on leadership, as a case in point.

See page 12 for more on sponsorship.

Do you have a blog recommendation?

Please send it to the Editor:

louise.reip@wardour.co.uk

APPOINTMENTS

Historic role for CISI member



Neil Dowdney, Chartered FCSI

Stockbroker Neil Dowdney, Chartered FCSI, has become a Deputy Lieutenant of his home county.

He was appointed to the historic role by Lord Lieutenant, Lady Gass, the representative of the Queen within Somerset. To be chosen for the post, a candidate must have been of service to the county.

For most of his 32-year career in financial services, Neil has been based in Somerset. Since 2003, he has worked for Williams de Broë in Bath. He has served in the Territorial Army (TA) for 41 years, progressing to the rank of Major, is an independent visitor of custody units for Avon and Somerset Constabulary and is also a parish councillor.

Neil will carry out duties in Somerset, including attending local ceremonies and events, at the request of the Lord Lieutenant. He said: "I will retire from the TA next year, at the age of 60, and this is a good opportunity to continue to serve the Crown."

3,781

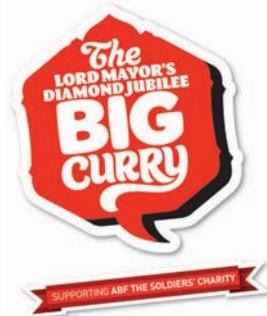
The number of members of the CISI group on business networking site LinkedIn. To join, apply to the 'Chartered Institute for Securities & Investment (CISI) Official Members' group at linkedin.com

FUNDRAISING

Charity lunch raises six-figure sum

A curry lunch in aid of charity has proven to be hot stuff, raising more than £200,000.

The Lord Mayor's Diamond Jubilee Big Curry Lunch was held at his official City of London residence, the Guildhall, and attracted 1,000 diners. Proceeds will go to ABF, The Soldiers' Charity, to help current and former servicemen and women and their families affected by the conflicts in Afghanistan and Iraq.





CLAY 'MUDLARK' HARRIS

Back story on Sarah Angus, Chartered MCSI, Selftrade

Like many mothers, Lin Nye-Wilkins took her daughter, Sarah, to work. But in her case it wasn't just for one day.

Lin, who worked for 39 years in the back office at Kleinwort Benson Investment Management and its predecessor Grieveson Grant, was such an inspiring role model that her daughter decided from an early age to follow in her footsteps.

And in this particular generation game, didn't she do well? Sarah Angus, Chartered MCSI, is now Stock Transfer and Settlements Manager at Selftrade. She also won the Mudlark Award for Exceptional Performance in the Back Office at this year's City of London Wealth Management Awards. Of her mother's example, she says: "I wanted to do what she did". After work experience at Kleinwort as a 14 year old and again at 16, Sarah was offered a job in its settlements team and decided not to continue with her A-levels.

With hindsight, she's certain that was the right decision: a delay of two years would have brought her into the job market in the middle of a downturn. She worked there for five years, a few desks away from her mother, but eventually decided "I'm 21 and need to move on. I can't work with my mum forever."

She went to Fimatex, a start-up internet broker owned by Société Générale. When Fimatex UK closed, many clients moved to online discount stock brokerage E-Trade, where Sarah got a job. While at E-Trade, she had her first contact with Selftrade, previously known as Comdirect. She decided against pursuing an administrator job there, but joined as Broker Transfers Supervisor a year later. "That was my first supervisor role and I had lots to do," she says. She then became Trade Support/Unit Trust Dealing Manager.

Traders nicknamed her 'Miss Selftrade'

In the meantime, Sarah's back-office family links took a new turn after a fellow employee was seconded into her team. Reader, she married him. He later left for another City firm, as compliance rules are strict about couples working together.

Sarah's revamping of the department enabled a caretaker manager to take a less hands-on approach to the job while she went on maternity leave. She returned as Stock Transfer Manager, to which responsibility for settlements was soon added.

"I like to be responsible for lots of things and to do things my way," Sarah admits. But she's not a "whirlwind" who rushes in and changes things just because she's new. She first learns how things are done, looks to see if there are any quick wins and checks that everyone is doing the role that is best for them and in which they're happiest.

Sarah is a champion of CISI qualifications. She has passed four – and aims for another when she can find the time – and was awarded a level 3 Certificate in Investment Administration. "When I got my letters [after my name], without having been to university, I was over the moon." For an Institute of Leadership and Management course, she used the way Selftrade promotes qualifications to staff as a case study.

She chairs Selftrade's internal communications committee and was once so ubiquitous as the firm's representative at external events that traders nicknamed her, with tongue-in-cheek affection, 'Miss Selftrade'.

Things have come a long way since her mother's time in the back office in the early days when women weren't allowed to wear trousers. By the time Sarah's own daughter, Tilly, is ready to enter the family business, who knows how much will have changed?



Sarah Angus

Stock Transfer and Settlements Manager, Selftrade

Do you have a back-office story?

mudlarklives@hotmail.co.uk

Illustration: Luke Wilson

EDUCATION

Students win CISI scholarships



Ingrid Morante



Hathai Phutrakul



David Moulds



Lenka Vackova

Four students have won educational scholarship awards from the CISI worth up to £3,000.

The awards scheme is open to students of financial subjects at seven UK universities accredited by the Institute as Centres of Excellence. Entrants were asked to produce a 2,500-word essay about the implications and impact of the Retail Distribution Review on consumers, on companies offering wealth management services, on individual advisers and on other key stakeholders. Shortlisted candidates then sat a panel interview and general knowledge test at the CISI.

The winning students were: Ingrid Morante, Cass Business School; Hathai Phutrakul, ICMA Centre, Reading; David Moulds, Glasgow Caledonian University; and Lenka Vackova, BPP Law School.

They each received a general scholarship under a programme run by the CISI Educational Trust in memory of Stephen Cooke. Stephen, who died in 1997, 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.

EVENTS

CISI Annual General Meeting



This year's Annual General Meeting will be held at the CISI, 8 Eastcheap, London EC3M 1AE, on **Thursday 6 September**. The closing date for nominations for Board membership is **Monday 25 June**.

A nomination form, which includes an explanation of the requirements for the election of candidates to the CISI Board of directors, is available at cisi.org

Alternatively, a hard copy of the nomination form is available on request from Linda Raven at linda.raven@cisi.org or +44 20 7645 0603.

David Butler
Partner, Head
of Global Credit
Research, Rogge
Global Partners



Ask the experts...

LONG-TERM REFINANCING OPERATION

In November 2011, the European Central Bank (ECB) announced an extension of the open-market refinancing operations through which it provided liquidity to European banks. It said it would offer secured three-year funds to eligible banks in unlimited amounts, subject to an interest rate equivalent to that payable on its regular shorter-term refinancing programmes (currently 1%), and with the option to prepay after a year. This is the three-year long-term refinancing operation (LTRO).

Few would disagree, then, that the three-year LTRO has staved off a potential funding crisis, bought crucial time for both banks and sovereign governments in the euro area to put their balance sheets in order, and rejuvenated market confidence. But is it all good news, and can it last?

Some worry that the exercise has led to the creation of an artificial bid for peripheral European sovereign debt. This is because a significant amount of the funds drawn down, especially in banking systems such as Spain's and Italy's, have been reinvested in domestic sovereign debt. For example, euro area banks (primarily Spanish) have purchased €68bn of Spanish government debt since the LTROs began in December 2011, versus no additional purchases in the previous two years.

When banks borrow from the ECB under the LTRO, they pledge collateral in the form of securities or other loan assets. In many cases, they are pledging bonds from the sovereigns whose debt they are buying with the new funds. It is clearly appealing for a bank to deposit French government debt as collateral, pay 1% on the ECB loan and then buy additional French government debt

yielding 3%. But it creates problems.

First, if banks opt to run a carry trade in government debt rather than deploy these ECB funds into the real economy, then some of the hoped-for benefits of the exercise will have been lost. In fact, the latest ECB data shows that bank loans to the private sector continued to contract in March 2012. These figures support the view that, while the LTROs may have prevented a disorderly deleveraging, they have not reversed the underlying weak credit expansion in the region.

Secondly, banks are loading up on peripheral euro sovereign debt once again, so the ties of interdependence and risk between bank and sovereign tighten, increasing systemic risks if economic conditions continue to deteriorate and sovereign funding pressures grow.

A third problem is banks increasingly encumbering their balance sheets with the use of covered bonds (bonds backed by both mortgage collateral and the issuer) as a source of borrowing, and the ongoing use of secured repurchase agreements. Recent research has estimated that about 21% of European bank assets are now pledged, even before the latest LTRO. Issuers need to remain aware of potential adverse consequences for their unsecured funding costs and, indeed, their senior unsecured credit ratings.

Against that background, it's easy to understand why speculation of a possible third round of long-term LTRO funding is receiving a more mixed reception from investors this time around.

Do you have a question about anything from tax to virtual trading?

✉ richard.mitchell@cisi.org



PUBLICATIONS

Regulation update



A large number of regulatory changes have happened in the past three months.

Stand-out events include amendments to client asset rules (with more to come after the Lehman's 'Rascals' court judgment), the practical transition to the new UK

regulatory structure and the challenge to City professions from the Hannam and Einhorn market-abuse cases.

Now, firms also need to watch direct rule-making by the EU and US authorities. The European Securities and Markets Authority (ESMA) is changing market practices, such as in high-frequency trading, while, from the US, there are major implications for the sector from the Foreign Account Tax Compliance Act and for derivatives trading and clearing under Dodd-Frank.

So how do firms change policies and procedures to meet these new duties while maintaining robust front-line monitoring? With 7,000 pages of FSA rules, guidance, reports, recommendations and speeches last year, there is a clear case for more risk, audit and compliance support. However, this is often impossible in the current cost-aware climate.

A partial solution is to outsource some of the intelligence gathering, and here the CISI's *Change – the Regulatory Update* could play a vital role in helping both senior managers and compliance experts. The latest edition, published in late May, is packed with useful information about changes in the world of regulation.

View and print out the edition at cisi.org/regupdate

QUICK QUIZ

Test your industry knowledge



Illustration: Cameron Law

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

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

Q1. An unseasonal frost in Brazil is likely to have what impact on the cash and futures prices of coffee?

- A) An increase in both cases B) A decrease in both cases C) An increase in the cash price and a decrease in the futures price D) An increase in the futures price and a decrease in the cash price

Q2. Which one of the following types of economy is most likely to have production and allocation of resources planned in advance?

- A) State-controlled economy B) Mixed economy C) Market economy D) Open economy

Q3. If £100 is invested now at 3% annual compound interest, what is its value at the end of three years?

- A) £106 B) £109 C) £109.27 D) £112.55

Q4. In a slowing economy, the public sector net cash requirement will most likely reflect which of the following?

- A) A surplus, as the Government receives more tax than the budget anticipated B) A surplus, as the Government receives more from tax and other revenues than it spends C) A shortfall, as the Government spends more than the budget anticipated D) A shortfall, as the Government spends more than it receives from taxes and other revenues

Exit stage left

The turmoil in Greece, which has made the anti-austerity, anti-bailout far left a leading light in the country's changed political landscape, threatens to have far-reaching ramifications

IF THE RECENT election results in France and Greece have one thing in common, it is that they have crystallised mounting public opposition to the fiscal tightening – a combination of draconian spending cuts and tax rises – that the eurozone's highly indebted governments have embarked upon to restore order to their public finances.

At one level, this could lead to a renegotiation of the austerity pact agreed only a few months ago between European Union leaders. France's new president François Hollande has made that a priority. That may be no bad thing: there has been too little emphasis on much-needed growth measures.

But the strong public reaction at the polls is now likely to bring about something much more significant: Greece's exit from the euro.

Until the tortured negotiations over Athens' most recent bailout, contemplating such an event was taboo for Europe's political leaders. No longer.

And, among economists, there is a growing consensus that, whatever the shape of the next Greek Government, the exit will happen.

Indeed, Willem Buiter of Citi, a former member of the Bank of England's Monetary Policy Committee, has set out a number of what he calls 'Grexit' scenarios. They make for sober reading.

Underpinning these is the assumption that Athens will fail to build enough momentum to meet targets on fiscal and structural reforms. The rest of the eurozone would then face three options, says Buiter, who puts the likelihood of Grexit at 50%–75% over the next 18 months.

First, member states could continue funding Greece despite its slippage on reforms. Secondly, they could refuse to offer

Athens significant concessions on its latest rescue deal. This would lead to a Greek euro exit, but policies would be put in place to 'ring fence' other vulnerable countries from market attack. Thirdly, Greece would leave the monetary union and the resulting market contagion would lead to the break-up of the single currency.

The third of these options would be a disaster. Such an outcome would probably be accompanied by multiple bank runs across Portugal, Spain and Italy as savers scramble to withdraw assets and move them abroad before they are converted into devalued escudos, pesetas and lira. Government and bank funding costs would soar, potentially shutting them out of markets and making the contagion worse. The ensuing financial chaos could tip the world into a 1930s-style depression.

Fortunately, Buiter considers a wider break-up unlikely, arguing that policymakers will take decisive action to contain market contagion. The European Central Bank (ECB) can, in theory, buy as much Spanish, Italian and Portuguese sovereign debt as necessary to head off havoc in the bond markets. But leaving the euro would be messy for Greece. At a minimum, says Buiter, a currency law would need to be implemented, domestic-law contracts redenominated from euros into new drachma and capital controls imposed.

You can add to that the need to keep everything super-secret in advance, including getting new banknotes printed and, presumably, delivered in lorryloads at night before the exit was announced. Any leaks and the flight of capital out of Greece, already under way, would become a flood.

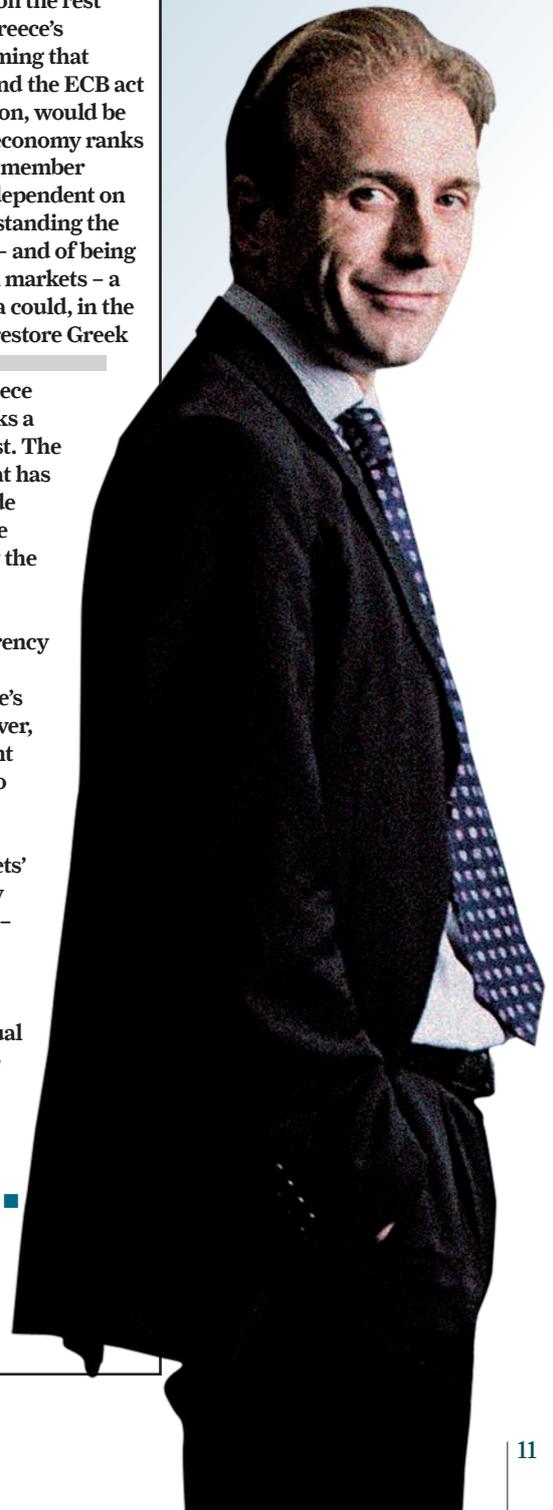
“A devalued drachma could help to restore Greek competitiveness”

The immediate economic impact on the rest of Europe from Greece's withdrawal, assuming that political leaders and the ECB act to contain contagion, would be limited. Greece's economy ranks fifteenth in the 27-member eurozone, and is dependent on tourism. Notwithstanding the impact of default – and of being shut out of capital markets – a devalued drachma could, in the long run, help to restore Greek competitiveness.

But in cutting Greece adrift, Europe risks a wider political cost. The bailout fatigue that has propelled Hollande to power in France will grow, making the necessary further fiscal integration among single currency members all but impossible. Greece's departure, moreover, will set a precedent that could begin to look attractive to voters elsewhere.

Markets' belief in the ability of Spain and Italy – much bigger economies than Greece – to avoid default and eventual euro exit will have been shaken. That will make for a corrosive mix. Prepare for turbulence ahead. ■

Christopher Adams is the Financial Times' markets editor



Mindful of public hostility to the industry, financial services firms are emphasising the community values of sport sponsorship rather than the reflected glory. As the Olympics approaches, **Rod Newing** investigates the purpose – and perils – of sport sponsorship

A sporting CHANCE

The upcoming London 2012 Olympic and Paralympic Games have seen a frenzy of marketing activity and press coverage, both good and bad. Financial services companies have a long history of sport sponsorship, including cricket, football and horse racing. Foreshadowing its high-profile sponsorship of London 2012, Lloyds Bank was the official provider of banking services to the 1948 London Olympic Games, offering “the encashment of travellers’ cheques”.

Today, corporate involvement is more complex, with the emphasis on social responsibility. Nowhere is it more embedded in the culture of sport than in the United States. Bank of America, for example, not only sponsors baseball’s World Series and Major League Baseball as a whole, its involvement extends to every tier of the game. The bank

sponsors big-name professional teams such as the New York Yankees and the Boston Red Sox and supports local minor-league clubs and community initiatives.

Different strokes

Matt Rogan, Managing Director of Two Circles, a sport business consultancy, is a director at the European Sponsorship Association and author of *Britain and the Olympic Games: Past, Present, Legacy*. He notes that the UK’s major banks have traditionally taken a different route to sponsorship. HSBC’s sponsorship, he explains, has targeted high-net-worth clients; the group decided last year to focus spending on its core sports of golf, rugby and tennis. The efforts of NatWest and Barclays aim to connect with ‘the man on the street’. NatWest has sponsored domestic and

international cricket for 30 years; Barclays has sponsored football’s Premier League since 2001 – the last three-year deal ending this year cost £82m. Rogan believes that banks have traditionally approached sport sponsorship with two distinct strategies. Institutional and corporate divisions have focused on hospitality to maintain and improve relationships with major customers, while retail institutions have used it to promote their brand to retail customers. “But we are increasingly seeing organisations, particularly with Olympics sponsorships, doing a bit of both,” he says. Rogan believes that regulatory change may make it harder for banks to work in both the corporate and retail sectors, but that, ultimately, the high-net-worth market provides the best return on investment. “The hard reality is that you



have to make sponsorship work through the high-net-worth customer community, or the numbers don't add up."

Balancing act

With the current poor state of the economy and the low esteem in which the financial services industry is held by the general public, sponsorship must be handled carefully. Now is not a good time for high-profile, 'chest-beating' sponsorship to show the size and power of the brand. RBS's title sponsorship of rugby union's Six Nations tournament was criticised when the bank was partly nationalised. While it dropped its sponsorship of the Williams Formula One motor-racing team in February 2009, the struggling bank honoured its £20m rugby deal, which expires next year. Continuing with the Six Nations was a gamble, believes Terry Tyrrell, Worldwide Chairman of the Brand Union, a global branding agency within the WPP group: there is a fine line between building the brand in people's minds and the sponsorship actually working against you. "It does seem to me to be on the verge of what is acceptable," he says. "On the other hand, RBS is rebuilding its brand from a position of weakness." When it comes to the Olympics, financial firms have a difficult line to tread. On the one hand, according to Brian Millar, Director of Strategy at Sense Worldwide, a transformational consultancy, the financial crisis has made firms overcautious in their approach. "Financial services companies have been unambitious in their sponsorship," he says. "They largely see it as an opportunity for hospitality." On the other hand, they must be careful to downplay the association of sponsorship with corporate vanity. "The industry should be going through an era of humility, keeping out of the limelight with a low profile," advises Tyrrell. "Firms should be

Illustration: Scott Chambers for Synergy Art

Within the law

Financial institutions that offer hospitality at sporting events must comply with the Bribery Act 2010, which came into force last July. They should have written policies and procedures to ensure that each guest is approved, and that entertainment is not intended to encourage them to act improperly or against their employer's best interests.

The Serious Fraud Office has described the Bribery Act as "the toughest bribery legislation in the world". Following fears that corporate hospitality would break the law, the final draft allows that, provided that any corporate hospitality serves a legitimate business interest and is not disproportionate, it will not be caught by the act.

Companies inviting guests to the Olympics should certainly have policies and procedures in place to ensure that these invitations do not fall foul of the act.

Ian Leist QC, a barrister and partner at Fulcrum Chambers in London, says that firms should apply some thought to what constitutes proportionate hospitality for the Games, and ought to take extra care with unusual and lavish expenditure on foreign officials.

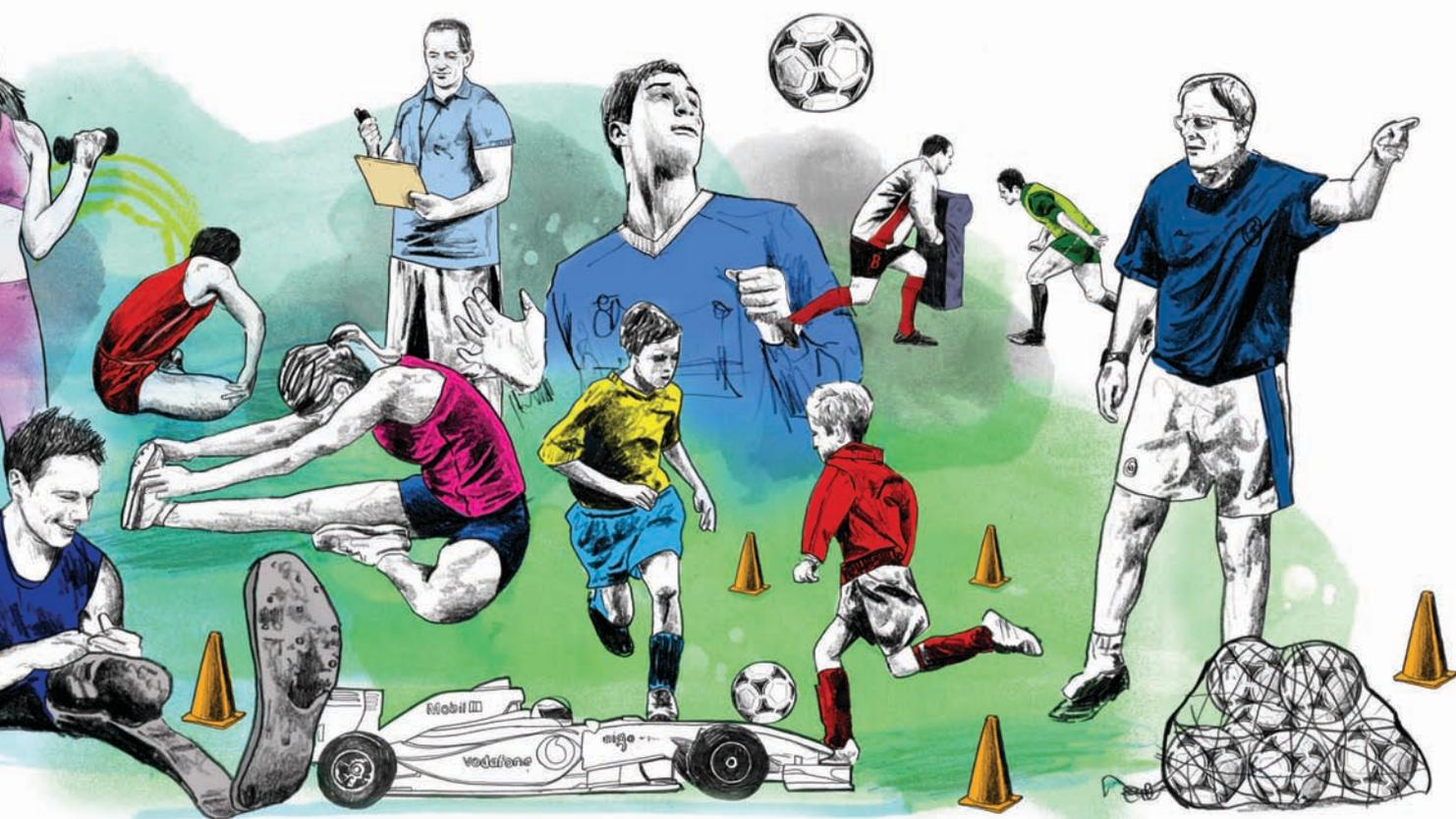
Ministry of Justice guidance issued in 2011 notes: "The more lavish the hospitality or other similar business expenditure provided to a foreign public official, then, generally, the greater the inference that it is intended to influence the official." But with a bit of care, says Leist, companies should not fear prosecution from entertaining at the Olympics. "It is unlikely

that there will be great public interest in the Olympic year, when London extends a generous welcome to the world, in officiously prosecuting 'hospitality' cases, except in exceptional and appropriate circumstances," he explains. "The greatest concern for corporates seeking to avoid damage to their business reputations is likely to come from the media investigating extravagant hospitality at a time when 'ordinary' folk may be struggling to go to the party."

Concerns about compliance with the act are not specific to financial firms. And Brian Millar believes that the financial sector is still trailing the major non-financial firms in sport partnerships, pointing to the level of sophistication of Coca-Cola and Procter & Gamble in their use of sponsorship. "Financial services companies are not used to competing with sophisticated marketers and rarely market with those companies' kind of insight," he says.

This may be to do with the difficulty of messaging to a hostile audience. Or, it may signify that a more targeted approach would yield dividends.

At the Olympics, Lloyds TSB bid successfully for a banking partner slot, as well as for the sponsorship of Team GB and the torch relay (it's not clear what else it bid unsuccessfully). One source close to the Olympic sponsorship efforts, who would not be named, concludes: "The banking partner [Lloyds TSB] has bid for everything. It has been a reflection of its lack of experience in this market. It wanted its logo on everything."



working more 'below the line', to demonstrate that they are doing good in sport by helping to support communities around the UK to improve their sporting skills – not saying how big, clever and high-profile they are.”

The reluctance of the industry to be in the limelight is likely to be one reason why there is only one pure financial services firm – Lloyds TSB – among the 25 major Olympics sponsors.

Rogan estimates that the firm's London 2012 involvement will have cost it £80m. This is not a sum that can be justified by marketing alone – especially since the Olympic venues are free of sponsors' names

and advertising. “All parts of the organisation will need to benefit from the investment,” he says. Arguably, Lloyds' involvement has been relatively low-profile to date, and has focused on the socially beneficial element of the Games. The bank stresses its involvement with Olympics-related school sport events in partnership with the charity SportsAid: its 'Local Heroes' programme has supported and funded 1,000 'future stars' of Team GB and

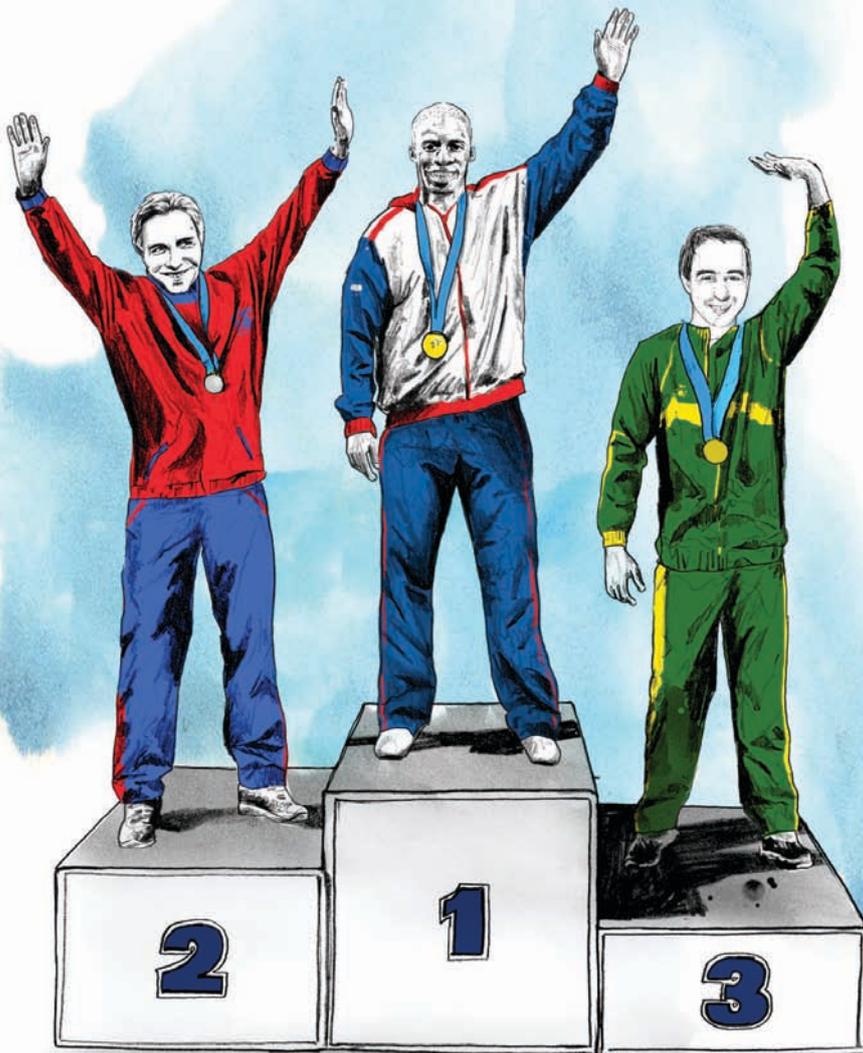
Paralympics GB, and the Lloyds TSB National School Sport Week has been running for four years. Comment from the bank chimes with Tyrrell's advice: “We have made a significant contribution to the success of the Games,” says a spokesperson, “by supporting [the London Organising Committee of the Olympic and Paralympic Games (LOCOG)] promise to make it the UK's Games and not just

London's, in bringing the inspiration and excitement of the Games closer to communities across the country.” On the corporate side, Lloyds' *Games Time Ready Guide* advises

“Firms should be supporting communities around the UK – not saying how big, clever and high-profile they are”

business customers on preparing for the busy period through the Games. As the official professional services provider to London 2012, Deloitte highlights other benefits. More than 130 of its employees have been seconded to LOCOG, and 60 employees will be working with the organisation in a variety of roles during the Games. “It is not just about sponsoring London 2012, but supporting the delivery of the Games,” says Heather Hancock,

lead London 2012 partner for Deloitte. “Our relationship with London 2012 goes way beyond a conventional sponsorship, and it has helped to develop relationships with clients by providing an opportunity to demonstrate our expertise.” Deloitte explains that its Olympics involvement has had a significant impact on recruitment and retention, with the secondment scheme a big attraction for existing staff and people looking to join the firm. Meanwhile, Barclays and HSBC are involved with UK Trade & Investment's Global Investment Conference. This top-level conference in July is part of a series of Olympics summits that, it is hoped, will provide a £1bn boost for British business and will be attended by International Monetary Fund Managing Director Christine Lagarde and European Central Bank President Mario Draghi. Visitors to the Olympics will also find Barclays hard to miss, because of the bank's branded bicycle-hire scheme in London. “The bikes are a really good, legitimate, smart piece of 'ambush' marketing,” says Rogan. Through the International Olympic Committee, Visa is the exclusive payment card and the official payment system for the Games. And yet, while it is the exclusive 'financial services' sponsor of FIFA, it chooses to describe itself as a 'technology' company in connection with the Olympics. Visa was not available for comment, but Tyrrell believes that Visa is trying to distance itself from an industry that has got itself a bad name. Visa's main objective is to create a preference for its own cards, against other major card associations, such as MasterCard, both among users and its own bank members. From providing expertise and manpower to funding community initiatives, financial services firms' involvement with sport is changing. Partnerships have not only moved far beyond “the encashment of travellers' cheques”, but also away from the heavy branding and corporate vanity of pre-austerity times. ■



A special relationship: sport and financial services

The world's biggest names in finance sponsor the world's most high-profile sporting events. These 'global partnerships' include:

Bank of America: baseball, NASCAR, American football

Barclays: football (the English Premier League), tennis (the ATP World Tour Finals)

BBVA (Spain): football (*La Liga*)

BNP Paribas: tennis (the French Open and the Davis Cup)

ING: the New York City Marathon

Investec: English Test cricket, horse racing (the Derby)

NatWest: cricket (one-day internationals in England and Wales)

RBS: rugby union (the Six Nations)

Santander and UBS: Formula One

London Annual Dinner

Celebrating 200 years of heritage, 20 years of independence

6 September 2012

The Guildhall



Join us at our flagship event of the year, our London Annual Dinner.

The evening will be presided over by the CISI Chairman, Alderman & Sheriff Alan Yarrow, Chartered FCSI(Hon) and we are delighted to welcome Lord Green of Hurstpierpoint, Minister of State for Trade and Investment and former Chairman of HSBC as our guest speaker.

This black tie event will provide the chance to network with your fellow members and the unique opportunity to dine in the beautiful Guildhall.

Tickets are available individually (£125) or as tables of ten (£1,100). The price includes drinks before and after dinner, and a three course meal with wine.

To reserve your seat visit cisi.org/annualdinner12. Should you wish to make an enquiry, please email flagshipevents@cisi.org

This event is kindly sponsored by London Stock Exchange Group



London
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Decision time

From October, employers will be obliged to enrol their staff into a work pension scheme. **Beth Holmes** looks at how the new national defined contribution pension scheme will compete with private offerings for the new market

SOME TEN YEARS in the making, auto-enrolment, the latest change to pensions, will start to come into force later this year. It will have an impact on almost every employer in the UK. From 1 October, depending on the size of company, employers will need to automatically enrol qualifying workers into a pension scheme and make contributions on those workers' behalf. They must also tell their employees about the changes and how they will affect them. The new employer duties will be introduced in stages. Each employer will be allocated a date, known as its 'staging

date', from when the duties will first apply to it. Auto-enrolment has its roots in the Turner Review of 2002, which was the catalyst for sweeping reform to both public and private pensions. Edmund Downes, Pensions Manager at Aviva, explains why auto-enrolment has now been introduced. "The current system isn't working," he says. "It wouldn't provide the required level of benefit on retirement." This is because people are living longer and are not saving enough. "Private sector membership of pensions schemes is less than 50%," says Peter Woods, Pensions Partner at PwC. "One

reason is inertia. Automatic enrolment has been brought in to use inertia in the opposite way – it's one step away from compulsory pension schemes." The non-compulsory element refers to an opt-out clause for employees; employers have no escape from the changes. The scheme allows auto-enrolment of all employees between the ages of 22 and the state pension age who have the relevant level of 'qualifying' earning. This is currently between £5,564 and £42,475. The obligation for employees and employers to make contributions will be triggered only once the employee's earnings reach £8,105.



Qualifying schemes can include defined contribution (DC), defined benefit (DB), personal pensions and contract-based, work-based personal pensions such as group personal pension plans, provided they satisfy the quality criteria prescribed in the Pensions Act 2008. The act set a minimum standard for the level of contributions made or the level of benefit provided. David Hannant, spokesperson for the Pensions Regulator, says: "We've been charged with maximising employer compliance. There are more than 1.3 million employers who have to do something. They probably don't have pension provision at the moment and the challenge is to make them aware."

NEST egg

Figures concerning current pension scheme take-up vary considerably; one estimate predicts that up to 11 million employees could be automatically enrolled. NEST, the National Employment Savings Trust, is a new, national, DC pension scheme. Described by one industry expert, who asked not to be named, as a "very low-cost, vanilla-covered offering for employers who aren't pensions savvy", it has been designed to be easy for employers and employees to use. "A lot of small and medium enterprises do not have much in the way of pensions on offer," says Woods. While the new rules mean

clear opportunities for pensions providers, they will "want to be able to turn a profit, which they can't do by targeting smaller employers or lower-paid individuals in larger companies". As such, he adds, NEST exists as "a vehicle that would mop up". However, while private providers can offer

"NEST can't be the sole pension scheme, because it won't provide adequately for some employees"

bespoke schemes to particular sectors, NEST lacks this flexibility. In particular, it bans the transfer of existing pensions into NEST, which will restrict savers from consolidating their pension pots. Secondly, it places a cap on annual contributions at £3,600, which will force employers with higher-paid employees to offer more than one scheme. This will mean that employees who receive a windfall that they might want to save for their retirement, such as a lump sum from an inheritance, cannot pay it into NEST if it would take them above the £3,600 limit. This is a fact that bothers the members of the Work and Pensions Select Committee, which, in a March report, called for the scrapping of the restrictions as "a matter of urgency". "By lifting these two key restrictions placed on NEST, the Government would remove barriers that might currently prevent employers from choosing NEST as their pension scheme, as well as making it easier for employees to bring together the other small pension pots they are likely to have," said the Chair of the Committee, Dame Anne Begg MP, at the launch of the report. The charity Age UK argues that the limitations on NEST are potentially damaging, both because they protect the existing pensions industry from competition and because they increase costs for employers and employees at whom the reforms are targeted. While there is nothing to stop people transferring pension savings to other (non-NEST) schemes, in practice there are many barriers. These include penalties for transfers out or in, and a resulting lack of advice and a tendency by providers to discourage transfers – in part, the legacy of pensions misselling. Woods rejects the suggestion that this disadvantage is affecting the take-up of NEST. "We see a lot of interest in NEST – we don't think that the restrictions are a major hobble to it." Indeed, Downes believes that the transfer restrictions on NEST, instead of being a deterrent, may actually work to its advantage by making it less likely that employers will switch to other schemes. The restrictions act as a mental block and can actually work against the larger providers. If people are unable to transfer, there will be a proportion of employers who will say: "We will keep people in for longer." But there is clearly room for alternative providers. "Certainly NEST can't

be the sole pension scheme, because it won't provide adequately for some employees," notes Woods. Schemes that are more flexible but equally low in cost will appeal to this group, and private pension providers are already developing rival products. B&CE, an insurer to the construction industry, has created an alternative offering that will be available to everyone, regardless of their sector. "Other competing offerings are looking to get the volume," says Downes. "Although NEST's target audience is between

three and six million, the Government has said that it needs just one million to make it affordable to the state, so there is space for both NEST and other competitors." NEST ought to create more competition in the pensions marketplace. It is ironic, then, that the restrictions placed on the Government's offering protects it from competition. The larger pensions providers have not yet felt the bite of NEST's privileged position – because this is a market that historically has not had a pension – but they are likely to soon. But industry observers, lobby groups and MPs agree that this situation is not ideal for either the pensions industry or the UK's workforce. If the pensions crisis is to be resolved, they say, lifting NEST's limitations might be a good place to start. ■

Pensions enrolment: the numbers

- The proportion of workers saving in a workplace pension has sunk to an all-time low of 48%.
- Although 70% of employers are aware of pension reform changes, 68% of employees have little or no knowledge of automatic enrolment.
- Of employees, 43% currently without a pension said that they would remain in a scheme once they were automatically enrolled – but opt-outs could be significant.
- Employees are most concerned (53%) about how their pay compares with the cost of living, while employers worry most about keeping up with the competition (58%).
- More than 56% of employees agree that pensions are the best way to save for retirement. Of those without a pension, 55% say they cannot afford one.
- Employers recognise that their workers are critical to their business success, but over one third (39%) are looking to motivate them without 'unduly increasing pay'.

Source: Aviva's Working Lives report, May 2012 / Office for National Statistics 2012



Hugo Cox talks to Andrew Tyrie MP, the Chairman of the Treasury Select Committee

Sharp eye

IN RECENT YEARS, Andrew Tyrie MP has, as Chairman of the Treasury Select Committee (TSC), spent more time asking searching questions than answering them. He has had a number of taut exchanges with Bank of England (BoE) Governor Sir Mervyn King as the Committee seeks better scrutiny of the BoE, the non-elected body at the heart of the Government's new regulatory framework. Early in March 2012, he began the Committee's grilling of Europe's leading rating agencies by asking Fred Drevon, Head of Europe, the Middle East and Africa at Moody's, whether he was going to apologise for the blunders over rating mortgage-backed securities. As Drevon avoided a direct answer, Tyrie simply asked the question three times. Initially, he answers my questions slowly and deliberately, choosing each word with the utmost care. When we agree to go off the record, the atmosphere lifts and he speaks more freely, but his eye contact remains constant and intense and his answers meticulously constructed. It is clear that his concerns that Parliament may not be granted adequate oversight of the new regulator run very deep. "The growth of the quango state over the last half-century is one of the most significant and least studied aspects of the British constitution, and more needs to be done to think how we can restore accountability," he begins. "That's why the Treasury Committee is determined to ensure that the biggest quango of all [the BoE], which is now to be given even more powers, should have more robust accountability." Tyrie's vocal opposition to the regulatory status quo dates from 1998, when the new Labour Government launched its new tripartite regime, sharing responsibility between the Treasury, the BoE and the newly formed FSA. "I am on record at the time saying that it was an accident waiting to happen, and that the new regulatory structure would fail its first test - not least because it didn't have one person in charge," he says. Tyrie spent five years as a special adviser to two Chancellors, Nigel Lawson and John Major, during the 1980s. Lawson's handling of the 1987 stock-market crash left Tyrie in no doubt of the importance of having a clear leadership structure in place. "I saw in 1987 that, when you have a crisis of those dimensions, you need one person in charge. I saw [Lawson] listen carefully to the advice from the BoE and others and then overrule some of it, in the space of a few hours, and point the ship of state in completely the opposite direction." Regardless of whether he took it, Lawson listened carefully to advice, says Tyrie: "It was not acceptable to go along as a passenger to meetings with Nigel Lawson. Everybody, on all the major decisions, was asked to give a view." How closely the current Chancellor is listening to the TSC is a moot point. The Committee has recorded some victories for greater oversight. In March 2010, Chancellor George Osborne surprised commentators by granting it the power to veto appointments to the independent Office for Budget Responsibility. That committee also forced a detailed report from the FSA on its handling of the collapse of RBS, published

CV snapshot

- 2010 – Chairman, Treasury Select Committee
- 2003 – Shadow Financial Secretary to the Treasury
- 1997 – Conservative MP for Chichester
- 1992 – Senior Economist, European Bank for Reconstruction and Development
- 1990 – Fellow, Nuffield College, University of Oxford
- 1986 – Adviser to the Rt Hon. Nigel Lawson MP and the Rt Hon. John Major MP
- 1981 – MPhil in International Relations, Wolfson College, University of Cambridge
- 1979 – MA in PPE, Trinity College, University of Oxford

Glossary

Prudential Regulatory Authority (PRA)

Housed in the Bank of England (BoE), oversees micro-prudential regulation for individual firms (deposit-taking institutions, insurers and investment banks).

Financial Conduct Authority (FCA)

Charged with the regulation of conduct in retail and wholesale markets as well as individual firms that do not fall under PRA scope.

Financial Policy Committee (FPC)

Macro-prudential risk regulator charged with overseeing the stability of the financial system by, for example, policing credit levels and preventing asset bubbles. Will instruct the PRA to rein in the action of individual institutions where appropriate. Housed in the BoE and chaired by the BoE's Governor, Mervyn King. Seen as a counterpart to the Monetary Policy Committee, which sets interest rates.



Photo: David Crump / Daily Mail / Rex Features

in January. Its quest to influence the Financial Services Bill, currently winding its way through Parliament, has frustrated the TSC. Its requested changes include retrospective reviews of the work of the interim Financial Policy Committee (FPC), as well as requiring the BoE's powerful Court of Directors to publish minutes of its meetings within two weeks. After the *S&IR*'s interview, the report stage of the Financial Services Bill began. The TSC felt able to withdraw an amendment to the Financial Services Bill that included these features once Tyrie had secured from the Government a pledge to find a way to put the recommendations in place. Prudential supervision, Tyrie acknowledges, has attracted most of the attention, because it played a key role in the financial crisis. But the conduct of business regulations, enforced by the Financial Conduct Authority (FCA), will have a more telling impact on the day-to-day lives of CISI members. Tyrie paints a

“With the 1987 stock-market crash I saw that when you have a crisis you need one person in charge”

picture that many CISI members in compliance and operations will recognise: “Where they get rung up and asked to provide seemingly meaningless reams of information and to engage in pointless box-ticking exercises.” All of this, he notes is “ultimately is at the expense of the customer and, in the meantime, often takes people in the front offices trying to earn a living and make a success of the business off the work that they think is most important.” Tyrie presents himself as a tenacious opponent to this type of overzealous scrutiny and rule making. “Excessive regulation can displace crucial issues from the board’s agenda right at the top of a company,” he concludes. He quotes “the chairman of one of Britain’s biggest financial institutions” as having made the same point to him the day before.

Small-business roots

Tyrie traces back to his childhood his fierce resistance to unnecessary government intervention. “My background is small business,” he explains. His father opened a sweet shop shortly after the Second World War, having left school at 15. “This was a huge influence on me: I saw what the effect of government action, tax and regulation can be on a small firm.” The 1970s, in particular, left their mark. “It looked as if Britain was going to become ungovernable. I used to do homework by candlelight and the heating used to go off. It was a very bumpy period for the family business,” he says. He saw up close the effects of taxation and regulatory reform. His father’s business survived and eventually flourished, but the young Tyrie had noted the struggle. Despite Tyrie’s commitment, the committee’s inability to secure reform of the FCA still frustrates him. “We’ve put forward a number of robust proposals to improve the accountability of the FCA and those, too, have received short shrift from the Government,” he says. The proposals have included charging the FCA with promoting effective competition for the benefit of the consumer, as well as the Government differentiating between the level and type of protection required from retail and wholesale consumers. The Committee also believes that the FPC, rather than the Prudential Regulation Authority as suggested by the Government, should be granted a veto over the FCA in areas relating to financial stability. Despite these setbacks, Tyrie has no intention of softening his approach. With the Financial Services Bill soon to enter the Lords, the Committee’s formal involvement will wane. In the meantime, the Chairman’s combative route to greater transparency of financial markets will be sure to keep regulators, like rating agencies, on their toes. ■

With the Government's Financial Services Bill heading for the House of Lords, **Beth Holmes** examines the strengths and weaknesses of the new regulatory structure, and discusses what work the Government still has to do

Another new dawn

GIVEN THAT IT began in the banking sector, there was little doubt that the global financial crisis would result in sweeping regulatory change. The Financial Services Bill, which splinters the FSA, is currently heading towards the House of Lords, meaning that the industry still has time to influence its final form. It has implications not just for big high-street banks, insurers, asset managers and stockbrokers, but for many other industries and the wider public too. The bill breaks the FSA into three new financial regulation watchdogs, which will be created next year. The Prudential Regulatory Authority (PRA), housed by the Bank of England (BoE), will oversee micro-prudential regulation for individual firms (deposit-taking institutions, insurers and investment banks). The Financial Conduct Authority (FCA) will be charged with regulation of conduct in retail and wholesale markets, as well as individual firms that do not fall under PRA scope. Finally, the Financial Policy Committee (FPC) will be the macro-prudential risk regulator that oversees the stability of the financial system by, for example, policing credit levels and preventing asset bubbles (see 'Glossary' on page 18 for more on each watchdog). The 'tripartite agreement' among the FSA, the Treasury and the central bank had "utterly failed" both before and after the crisis, said Chancellor George Osborne when he first announced the plans. The new structure divides responsibility for the regulation of individual firms between two regulators – the FCA and PRA – rather than concentrating it in the FSA. But shared responsibility was one of the problems in the financial crisis. In the July/August 2011 issue of the *SEIR*, Alastair Clark, the Treasury's Senior Adviser for Financial Stability, noted that the BoE was concerned that the heavy reliance on wholesale market funding of a number of institutions, including Northern Rock, was a problem. But the information was not acted upon; responsibility fell between the three pillars of the Treasury,

the BoE and the FSA, with no one taking control. David Kenmir, former FSA Chief Operating officer and now a partner at PwC's Financial Services Regulatory Practice, says: "The key issue that the Government wanted to sort out was that no one was in overall lead. The creation of the FPC, with powers of direction over the FCA and PRA, attempts to address that." Giving ultimate responsibility to the BoE ensures that there is one agency in charge. But it can act effectively only if it is properly informed. "It is essential that all parties in the new structure communicate well with one another," says Nick Alford, partner at Kingston Smith Consulting LLP. "They need to be clear in articulating their expectations of the regulated entities, to ensure a more effective regime."

The too big bank?

Concentrating power in the hands of the BoE raises questions about its accountability. Under the new regime, it is hard to find a more powerful regulator/central bank hybrid anywhere in the world. In the US, the Federal Reserve is certainly granted substantial

The trials of kingship

The Treasury Select Committee hearings capped a torrid few months for Sir Mervyn King, who is due to retire from his post as Governor in June 2013. David Blanchflower, a former external member of the Monetary Policy Committee, wrote in the *New Statesman* in April that King "controlled the Bank with an iron fist" and was "unprepared" for the global financial crisis.

He likened King to a tyrant, writing that the Governor was responsible for monetary policy, not fiscal policy, and had "crossed the line" by endorsing the coalition Government's austerity programme.

new powers under Dodd-Frank, but it must continue to liaise with a range of different regulatory agencies, which retain various levels of autonomy. Andrew Tyrie MP, Treasury Select Committee (TSC) Chairman, has led the fight for the Bill to include better accountability of the BoE. The TSC's report on the Bank's accountability, published last November, described the bank as a "super-regulator" after the regulatory shake-up. It demanded a robust approach to governance. He raises his concerns about the Bank in a profile article on page 18. The relationship between BoE Governor Sir Mervyn King and members of the TSC soured during a series of TSC hearings. Sir Mervyn wants an internal oversight committee, an approach dismissed by Tyrie as "a semi-reformed 17th-century court".

The TSC wants a supervisory board overseeing the BoE, with the power to review performance. It tabled an amendment to the Bill requiring the Bank's Court of Directors to carry out and comment on findings of retrospective reviews of the work of the FPC. It also required the Court to publish minutes of its meetings within two weeks. In April, when the Government said it would try to find a way of addressing the TSC's concerns, the amendment was withdrawn. Mark Hoban MP, Economic Secretary to the Treasury, conceded at the time: "I completely agree that there is a clear need for the Bank's accountability arrangements to be strengthened through the publication of Court minutes and enhanced scrutiny of the Bank's work." He implied that future amendment of the Bill in the Lords will take place. The concerns of Tyrie and the TSC are shared by many in the industry. "We very much support the TSC. The Bank of England is an unelected power and although we're not saying it isn't capable, we are looking for proper accountability. [The new regulatory regime] is a hugely significant change," says Paul Chisnell, Executive Director of the British Bankers' Association (BBA). In an April

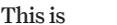
letter to Hoban, outgoing BBA Chief Executive Angela Knight CBE FCSI(Hon) also criticised the Bill. Specifically, she believes that future regulatory change could be pushed through by the PRA – responsible for regulating individual firms – with little consultation with the industry. Knight called for “at least one 12-week consultation period for significant requirements.” She concludes: “A point that seems to have been overlooked is that good discipline around consultation contributes to better decision-making.”

New levers

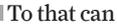
Besides accountability, competence is a concern. A system of macro-prudential regulation is untested in the UK, and the BoE may not be ready to enforce it. 

Michael Izza, Chief Executive of the Institute of Chartered Accountants in England and Wales, said in April: “Macro-prudential policy will be a new departure for the UK, and there is little experience of what tools will be best used, or

“It is vital that the FPC seeks input from a wide range of external experts”

their impact. Furthermore, the data available currently falls short of what the FPC would ideally use to do its job.”  This is especially concerning given the fragile growth prospects for the UK economy. “We also have concerns about the impact of the tools on wider economic growth – we need to make sure that these tools do not harm already-fragile growth,” notes Izza. “So, overall, it is vital that the FPC works in a particularly open way, seeking input from a wide range of external experts.”

Thankless task

With the launch of the regulators drawing nearer, key concerns for Parliament and the industry remain. They focus on the importance of accountability and transparency for the three new bodies and the guarantee that they will communicate effectively with one another.  To that can be added the complication of fitting the new UK regulatory structure into a global context. Knight’s letter flagged up the importance of syncing reform with European regulation, and Prime Minister David Cameron has already caused anger in Brussels with his insistence on maintaining control of UK financial regulation.  The Government may have learned the lessons from the failure of the tripartite system, but the trick will be not to fall into other traps. Regulatory reform, David Kenmir concludes, is a thankless task: “There is no right way to structure a regulatory system. [The new framework] was brought in because the integrated approach was tried and doesn’t work. But that was itself brought in in response to a fragmented approach. One thing you can guarantee is that, at some point, the new regime will be perceived to have failed.” ■



Falling SHORT

Quantitative easing and very low long-term interest rates are difficult for pension schemes to digest, as **Nick Ivey** explains



A PENSION DEFICIT exists when the current market value of a scheme's assets appears insufficient to meet expected future payments to members. The amount by which the assets fall short dictates the magnitude of the deficit. Deficits often ring alarm bells, and with a number of pension deficits dwarfing the market capitalisations of their sponsoring companies, one might argue that they are duly ringing. ■■■■■ The devil is in the detail, however: how is the deficit defined and how large is it? A minor deficit will be no cause for concern if it is anticipated that planned sponsor contributions and expected asset returns over the life of the scheme will comfortably plug the funding gap. ■■■■■ Historically low long-term interest rates and the quantitative-easing (QE) programme initiated by the Bank of England (BoE) have exacerbated the UK's current pension deficit problem by causing the values placed on expected future liabilities to soar. Despite asset portfolios delivering strong performance to partly offset these rising liabilities, deficits have accumulated.

How is a pension deficit measured?

Pension schemes are subject to regular valuations, where an actuary measures the difference between the current market value of the scheme's assets and an estimate of future pension payments to members, evaluated in today's terms (present value). A scheme with assets worth £500m today and liabilities assigned a present value of £600m is said to have a £100m deficit. ■■■■■

A scheme's liabilities can take on different values depending on how expected future liabilities are discounted to the valuation date. This makes the process of defining a pension deficit less straightforward. The three main measures of liabilities – technical provisions, accounting and buyout/

solvency – each adopt a different discount rate. Rather than being invalid or mutually exclusive, these liability measures reflect different underlying assumptions and different levels of prudence. ■■■■■ Ultimately, a lower discount rate will lead to a higher estimated present value for a scheme's expected future liabilities and a larger pension deficit will be reported, all else being equal.

Technical provisions basis

Pension-scheme trustees focus on measuring liabilities on a technical provisions basis. Technical provisions constitute the target level of assets that the trustees and sponsoring company decide is appropriate to meet promised future benefits, given agreed financial and demographic assumptions. Future pension payments are discounted using a rate agreed between the trustees and sponsoring company, which will fall between a best estimate of the expected return on the scheme's assets and a least-risk rate, such as a swap rate. This liability (and deficit) measure is the key driver of a sponsoring employer's contributions to a scheme.

Accounting basis

Following IAS19 accounting standards, companies discount scheme liabilities using AA-rated corporate-bond yields. Importantly, therefore, values placed on accounting liabilities are highly sensitive to movements in corporate-bond yields. Depending on the strength of the agreed technical provisions discount rate, this could be more or less prudent than the technical provisions approach. Accounting liabilities are often published in companies' financial reports, making them the most easily accessible liability measure.

Buyout/solvency basis

Insurance companies will adopt the most prudent approach, commonly using pure market rates such as gilt yields to discount the liabilities. The resulting liability measure, which will be the highest measure of the three, can be thought of as the cost to a scheme of transferring all of its liabilities to an insurance company. A deficit on a buyout basis, therefore, indicates that a scheme has insufficient assets to settle all accrued liabilities through purchasing matching annuities from an insurance company.

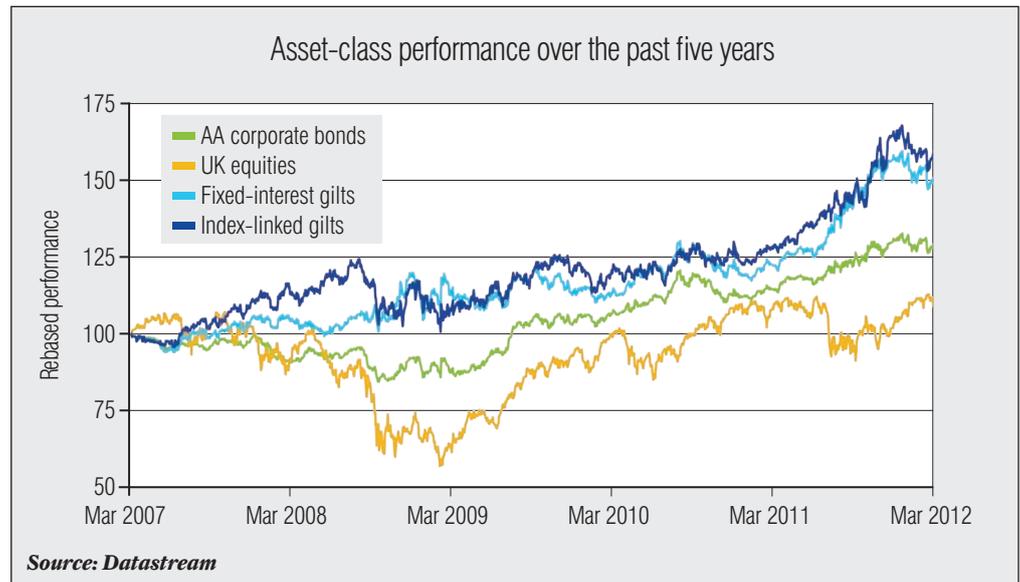
How do pension deficits arise?

The way the values of a scheme's assets and liabilities interact determines a

scheme's funding position. Whenever a scheme's assets 'underperform' its liabilities in value terms, its funding position will worsen; the result will be a larger deficit, the start of a deficit, or a smaller surplus. Asset valuations are dictated by market prices. Falling asset values, all else being equal, will worsen a funding position. In contrast, liability values are influenced by two principal factors: underlying economic and financial market conditions and the demographic assumptions applied when forecasting future liabilities. Lower discount rates and higher-than-expected inflation rates are examples of changes to financial conditions that would raise the present values of liabilities and amplify deficits. Increased life-expectancy estimates, higher assumed pay increases and lower retirement ages are examples of alterations to the demographic assumptions that would also increase liabilities and deficits, all else being equal. For example, consider a scheme with assets that are identical in value to the present value of the scheme's liabilities (hence the scheme has no deficit or surplus). Additionally, assume that the scheme is invested equally in UK equities and gilts of an equivalent duration to the liabilities, and its liabilities are discounted using gilt yields. If equity markets plummet and investors flee to safe-haven assets, gilt yields would fall and the value of the scheme's liabilities would rise. The gilts in the asset portfolio would deliver returns in line with the liabilities; however, the equities would fall in value. The asset portfolio would underperform the liabilities and a pension deficit would arise. Alternatively, increased life-expectancy assumptions would also lead to a deficit – the liabilities would rise in value as the number of future payments expected would increase, while there would be no direct effect on asset prices.

Quantitative easing

The BoE's Monetary Policy Committee announced the beginning of a QE programme in March 2009, targeting asset purchases of £75bn. By February 2012, this target had increased to £325bn. The purpose of the programme was to rejuvenate demand in the economy to facilitate inflation of 2% (as measured by the Consumer Prices Index), in line with the Bank's target, without reducing the bank rate below 0.5%. Since the initiation of the



programme, the Bank's aim has been to purchase assets – largely government bonds – from private investors such as insurance companies. These purchases have exerted upward pressure on prices, thereby reducing yields and long-term interest rates. For the consumer, lower interest rates facilitate cheaper loans and mortgages, boosting consumer demand. For the private investor, expensive government bonds should appear unattractive, increasing the flow of funds into alternatives such as equities and corporate bonds. Consequent higher share prices and lower corporate bond yields make it cheaper for firms

The fourth quarter of 2011 was particularly painful for pension schemes, as gilt yields fell to historic lows

to source finance, which can in turn be used to boost demand within the economy. The implications for pension schemes are less rosy, as the financial press has frequently documented. Effective QE will lead to lower yields, be they corporate bond yields, gilt yields or swap rates. This reduces the discount rates used to measure the liabilities of pension schemes, leading to higher liability values. The fourth quarter of 2011 was particularly painful for pension schemes, as gilt yields fell to historic lows, pushing liability values towards their highest levels recorded. Higher liability values result in larger

pension deficits, unless a scheme's assets rise in value by at least as much as the liability measure. Regrettably, pension schemes whose assets have responded at least as favourably to QE as their liabilities are in the minority. Difficult discussions ensue, as trustees attempt to persuade their sponsoring employers to pay large contributions to make good abnormally large deficits.

What has happened to deficits recently?

Over-15-year index-linked gilts, which can be thought of as a proxy for a scheme's liabilities, have generated annualised total returns of 9.6% over the five years to 31 March 2012. Over the same timeframe, the annualised total return on UK equities (the FTSE All Share Index) was 1.8%. These returns bear testament to the challenge that a pension scheme has faced in selecting a portfolio of assets that will outperform its liabilities; they also partially explain why pension deficits have ballooned in recent years. Of course, these returns were not solely driven by QE, though there would be few adversaries to the argument that QE was a significant contributor. ■

Nick Ivey
is an investment analyst
at Aon Hewitt

AON Hewitt





Bonus POINTS

A young bank employee is given a cash bonus by his manager, ostensibly for good performance. Should he accept the money, no questions asked?

HAVING COMPLETED NEARLY a year in his first job, working at a small branch of the bank that he had joined straight from school, Ray was happy to receive a good appraisal, saying that he had performed well and showed great potential. So he was not surprised to be told by the Assistant Manager that the Branch Manager, Christine, wished to see him later that day. Christine congratulated Ray on his performance and said that although, as a rule, staff were not able to participate in the bank's bonus scheme until they had completed 12 months' service, she was going to make an exception in his case to encourage him. She handed him an envelope, saying that she hoped that he would be pleased. Christine added that because of the special nature of the payment and the bank's rules on bonuses generally, he must be sure to not discuss it with anyone. Ray felt a little embarrassed to have been singled out, but pleased to have made a good impression. He went into the staff room where he opened the envelope and was delighted to find £150 in new notes, as well as a letter from Christine saying that the bonus was her personal recognition of his hard work and good performance. Ray was a bit surprised at the comment, which left him unsure whether the 'bonus' was from the bank or from Christine herself. Although Christine had told Ray not to mention the award to anyone, which was the bank's normal rule regarding bonus payments, he felt unable to keep his apparent good fortune to himself. On the way home, he sent a text to his friend Dan, whom he had met on an induction course when he joined the bank, suggesting they meet later for a drink. Dan, who worked at another branch but lived nearby, readily agreed.

Unusual generosity

When he got home, Ray relayed his good fortune to his mother, who said how pleased she was, adding that she hoped he would do something sensible with the money. Later that evening, when Ray met Dan, he told him that he had had a spot of good fortune and offered to buy him a drink. "Not just the usual pint, but anything you like," said Ray extravagantly, and Dan asked him to bring the cocktail list. When Ray returned with the drinks and sat down, Dan asked him what had prompted this unusual

generosity and Ray said that he was not supposed to tell anyone, but that he had received a bonus. Dan expressed surprise, saying that as they had not been in the bank for a year, they did not qualify for the bank's bonus scheme. Anyway, he added, staff had been warned that bonus payments would be very limited, so Ray getting one must surely have been a mistake. ■■■■■ In response, Ray said that Christine, his manager, had said that the bonus was personal and, despite her warning, he showed Dan the letter. Dan read the letter and said that it looked as though Christine had given Ray the money out of her own pocket. He said he thought that was rather abnormal and added that he hoped Ray had not been asked to do anything unusual by Christine. Ray asked what Dan was implying, adding that he did not actually have much day-to-day contact with Christine. ■■■■■ Dan said that he thought it was out of the ordinary to give people any sort of payment in cash, because it could imply all sorts of things but, even

“He wondered whether he had done anything wrong in accepting the money”

so, he was enjoying his drink bought with the proceeds of Ray's good fortune. Ray replied that he was sure that he had done nothing that he should not have done and suggested that they talk about something else. The conversation turned to more controversial matters, such as football.

■■■■■ At the end of the evening, Ray and Dan went their separate ways, having not said any more about Ray's bonus. That night, Ray awoke in the early hours and had difficulty going back to sleep because he wondered whether he had done anything wrong in accepting the money or whether anything that he had done at work might have been at all 'suspect'. But he could not think of anything.

■■■■■ Then he wondered whether he should raise the matter with anyone in the branch and, if so, whom. Or should he perhaps phone the helpline number that he was given on his induction? But he was unsure to whom he would be talking and whether it would get back to Christine that he had called. That seemed possibly to be worse than doing nothing. In the end, after tossing and turning some more, Ray fell asleep with the matter unresolved. ■

What course of action would you recommend to Ray?

- Call the bank's helpline and tell them of his concern.
- Accept the money, as he is sure that he has done nothing wrong.
- Discuss his concerns with Christine, who has given him the money.
- Raise the matter with the Assistant Manager.

Keeping mum

THE VERDICT

When Bob, a non-executive director, is asked to produce a report on the due-diligence process of wealth manager Optimist, he finds it leaves much to be desired. The company thanks him and he resigns, as his job is done, but he then receives an email from another party, Guy, who works for the FSA, fishing for information.

This was the Grey Matters dilemma posted in the April issue of the *S&IR*. Readers were invited to vote in a poll on the CISI website for the course of action that they felt Bob should take, choosing from four options.

The results were as follows:

- Ignore the email and do nothing – 17%.
- Respond saying that he would be happy to meet to discuss anything specific that Guy may have in mind – 29%.
- Respond saying that he left Optimist as a result of a disagreement over policy – 13%.
- Respond saying that he had nothing specific to raise, but then phone the whistleblowing line to report Optimist's poor standards regarding basic compliance issues – 41%.

The CISI response

The CISI has commented before on its concerns at the responses proposed by a not-inconsiderable proportion of voters in earlier Grey Matters ethical dilemmas, and the responses to this particular scenario have served to heighten that concern.

A generous interpretation is that it is due to our not being able to offer a broader spread of responses, in which case one might anticipate a larger number of comments being left, but that is not the case.

The response to the first option is that it is surely unlikely. Bob knows Guy and to ignore the email is rude and may well be taken as an indication that Bob has something to hide.

The second option is quite a plausible response, provided that Bob makes Kevin (Chairman of Optimist) aware of what he intends to do and what he might say. Kevin has previously spoken informally about the matter with Guy; ideally, Bob should forward the email to Kevin and he should be given the opportunity to accompany Bob if/when he meets Guy.

The third option, as with the first, may well be taken as an indication that all is not well at Optimist, but the response may well provoke further questions.

The fourth alternative is the most popular response, which is disappointing. For Bob to tell Guy that he has nothing to tell him and then to phone the whistleblowing line is extraordinarily pusillanimous. Either he should have the courage of his convictions and share these with the regulator, in which case he should make known to Kevin what he is about to do, or he should keep them to himself/Optimist.

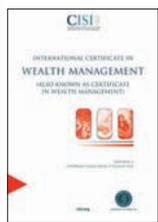
Open, honest, transparent, fair? What do you think?

Visit cisi.org and let us know your favoured option. The results, together with the opinion of the Chartered Institute for Securities & Investment, will be published in the September edition of the *S&IR*.

Need to read

The latest publications and study aids supporting CISI qualifications

NEW WORKBOOK AND EARNING EDITION



International Certificate in Wealth Management

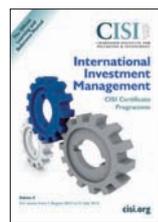
The objective of the International Certificate in Wealth Management (ICWM) is to provide candidates with an understanding of how the fundamentals of giving financial advice can be used to find appropriate solutions to

clients' needs. A new edition of the ICWM workbook and corresponding elearning product (covering exams from 10 September 2012) is due out shortly, covering:

- the financial services industry and economic background
- fiduciary relationships
- financial assets and markets
- investment funds and planning.

Price: £100 for the link pack (combined workbook and elearning product).

NEW WORKBOOK AND EARNING EDITION



International Investment Management

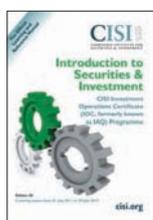
The International Certificate in Investment Management is the competence-based qualification targeted at professionals engaged in managing investments, dealing in/advising on securities or derivatives and acting as a broker fund-adviser. A new

edition of the *International Investment Management* workbook and corresponding elearning product (covering exams from 1 August 2012 to 31 July 2013) is out now, including:

- economics
- industry regulation
- asset classes
- financial markets.

Price: £100 for the link pack (combined workbook and elearning product).

NEW WORKBOOK AND EARNING EDITION



Introduction to Securities & Investment

A new edition of the CISI's *Introduction to Securities & Investment* workbook and corresponding elearning

product (covering exams from 21 July 2012 to 20 July 2013) is now available.

Topics covered include:

- the economic environment
- financial assets and markets
- equities, bonds and derivatives
- investment funds
- financial services regulation
- taxation, investment wrappers and trusts.

They fulfil the syllabus requirements of both:

- the Introduction to Investment Award
- the Investment Operations Certificate (formerly known as the Investment Administration Qualification) programme, unit 1.

Price: £100 for the link pack (combined workbook and elearning product).

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 now consists of more than 40 modules, including:

- anti-money laundering
- corporate actions
- Foreign Account Tax Compliance Act (FATCA)
- financial crime
- investment principles and risk
- professional taxation
- training and competence
- the UK regulatory structure.

Price: Free for all CISI members; otherwise, it costs £150 per user. There are also tailored module packages available for individual firms. Visit cisi.org/refresher for further information.

ONLINE TOOL

CISI bookshop



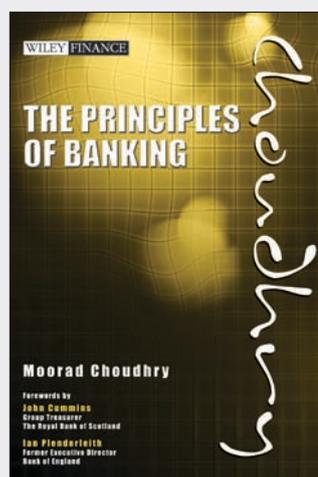
The CISI online bookshop enables you to purchase workbooks, publications and elearning products quickly and efficiently.

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

Go to cisi.org/bookshop

OTHER READING

The Principles of Banking by Moorad Choudhry FCSI



A guide for bank management around the world on how to survive and thrive throughout the business cycle.

Highlighting how the primary requirement of banking – sound capital and liquidity risk management – had been forgotten in the years before the financial crash, the book serves as a template and policy guide for regulators as well as practitioners.

It explains the measures that banks need to take during the good times in order to be prepared for the bad, providing in-depth technical analysis of what constitutes best practice within the industry.

The Principles of Banking is published by John Wiley & Sons. The standard price for the book is £60, but it is available to CISI members at a 40% discount when ordered at wiley.com before 30 September 2012. To secure the saving, enter the code VB863.

External specialists

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

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

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

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

Diary

Events to attend over the coming months



CISI Annual Dinner

6 SEPTEMBER

Guildhall, Gresham Street, London, EC2



Guest speaker: Lord Green, Minister of State for Trade and Investment and former Group Chairman of HSBC Holdings

Bookings are now being taken for the CISI's premier social event of the year, its Annual Dinner, sponsored by London Stock Exchange Group, which will celebrate the Institute's 20th anniversary. Please email flagship@cisi.org for further details. To book, visit cisi.org/annualdinner12

Branch events

14 JUNE **Financial Crime in an Age of Austerity**

East Midlands & Lincoln: Brewin Dolphin, Two Colton Square, Leicester

15 JUNE **Absolute-Return Funds**

Guernsey: Old Government House Hotel, St Ann's Place, St Peter Port, Guernsey

18 JUNE **Transparency: ETFs Under the Microscope**

Birmingham & West Midlands: Deutsche Bank, Baskerville House, Centenary Square, Birmingham

20 JUNE **Absolute-Return Funds**

North East: Brewin Dolphin, Times Central, 32 Gallowgate, Newcastle

25 JUNE **Suitability Assessment**

Scotland: Deloitte, Saltire Court, 20 Castle Terrace, Edinburgh

5 JULY **Annual Dinner**

East Anglia: Norwich Cathedral Refectory, Norwich

12 JULY **Annual Dinner**

Yorkshire: Doubletree by Hilton Hotel, Granary Wharf, 2 Wharf Approach, Leeds

20 SEPTEMBER **Annual Dinner**

Scotland: The George Hotel, 19-21 George Street, Edinburgh

19 OCTOBER **Annual Dinner**

Isle of Man: Mount Murray Hotel, Santon

15 NOVEMBER **Annual Dinner**

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To book:

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London CPD events

19 JUNE **The Rivals: India - Is the Growth Story Intact?**

TBC

28 JUNE **Risk Comes to the Fore in Islamic Finance**

Deloitte, New Street Square, EC4

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

To book:

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Professional courses

Venue: London unless otherwise stated

21 JUNE **Mastering Communication with Clients and Colleagues** £500

26 JUNE **Securities** (Birmingham)** £500

12 JULY **Introduction to Financial Markets** £500

16/17 JULY **Understanding Regulation & Compliance** £900

19 JULY **Securities**** £500

1 AUGUST **Investment Principles & Risk (PCIAM)*** £300

1 AUGUST **Investment Principles & Risk (IAC)*** £500

1/2 AUGUST **Investment Principles & Risk (LSE)*** £900

8/9 AUGUST **Derivatives** (Manchester)** £900

13 AUGUST **Investment Principles & Risk (PCIAM)* (Birmingham)** £300

13 AUGUST **Investment Principles & Risk (IAC)* (Birmingham)** £500

13/14 AUGUST **Investment Principles & Risk (LSE)* (Birmingham)** £900

16 AUGUST **Investment Principles & Risk (PCIAM)* (morning)** £300

16 AUGUST **Investment Principles & Risk (PCIAM)* (afternoon)** £300

20 AUGUST **Pensions & Retirement Planning*** £500

22/23 AUGUST **Derivatives**** £900

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

**This event fulfils the above criteria and requirements for qualifications gap-fill for CII exams - Advanced Financial Planning Certificate and Fellow/Associate (life and pensions route only)

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Professional interest forums

Operations forum events



Paul Kennedy

The importance of getting it right when it comes to reference data will be under discussion at the next meeting of the CISI's operations professional interest forum (PIF).

Paul Kennedy, Business Manager Reference Data, Interactive Data (Europe) Ltd, will be among speakers at the event on 11 July.



Alan Burr, Chartered FCSI

Alan Burr, Chartered FCSI, Deputy Chairman of the forum, said: "Every operations manager understands the importance and relevance of managing accurate reference data to supporting the firm's business. This is a challenging requirement in our industry, and we want to give our forum members the chance to hear from experts so that we can collectively develop better standards."

On 12 September, the forum will discuss the issue of what firms should do if their clearing house collapses.

To join the 500 members already signed up to the mailing list of the operations forum, or to book a place at one of its events, please email operationsforum@cisi.org

The operations forum is one of seven PIFs run by the CISI. The others cover corporate finance, Islamic finance, IT, risk, compliance and wealth management. Each of these discussion groups meets at least once a quarter in London to debate current issues and hear presentations from industry speakers. Events are generally held at midday, with a light lunch provided and opportunities to network. Fellows, Members, Associates and Affiliates of the Institute can attend meetings free as a CPD benefit. Students may attend one event of each forum annually. For more information about forthcoming meetings, visit cisi.org/pifs

INTEREST GROUPS

Enforcement trends in the spotlight



Sara George

The FSA's new focus on taking enforcement action against holders of significant influence functions (SIFs) will be addressed at a CISI event on 28 June.

Providing expert insight into the issue at a meeting of the training and competence interest group will be speaker Sara George, specialist in regulatory litigation at Stephenson Harwood LLP. Her firm played a key role in undermining the FSA's policy on holding SIFs to account for failures occurring on their watch. It challenged the FSA decision to fine former UBS executive John Pottage for failing to respond to warning signs that there were serious control flaws within the business he managed.

This case marked the first time that the FSA had attempted to hold a Chief Executive personally liable and to impose a significant financial penalty on him or her for failing to take reasonable steps in their business area, even though they had no personal involvement in any wrongdoing.

The event, at Lloyd's in the City of London, will also address other trends in enforcement. Formerly known as the training directors' forum, the interest group focuses on issues and discussions relating to training and HR, and provides updates on CISI initiatives.

It will be predominantly of interest to those working in senior training roles, but may also be relevant to anyone interested in matters relating to learning and development, organisational development or training and competence. Both CISI members and non members are welcome.

For further information about the group and to book a place at the event, which will take place from 12.30pm to 2pm, visit cisi.org/interestgroups

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*Terms and conditions apply. See website for further details. All Vision Express offers carry individual terms and conditions - see website for details. Opening times for attractions can be seasonal. Discount cannot be used in conjunction with any other promotion, is subject to availability and tickets must be booked at least 24 hours in advance of visit. CISI Select Benefits is managed on behalf of the CISI by Parliament Hill Ltd of 127 Cheapside, London, EC2V 6BT. Neither is part of the same group as a provider.

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cisi.org/cisitiv

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Membership admissions and upgrades

MCSI	Invent Assets	Bank of America	Lighthouse Carrwood	Frederique Carrier
APEX	Hayagreeva Puranam	Merrill Lynch	Michael Sweeney	Joseph Conry
Sandiren Ramsamy	Investec	Behzad Alimoradian	Liontrust	Thomas Cummins
Arbuthnot Latham	John Barkhan	Noam Attar	John Trehearn	Barry Graham
Adam Alari	Malcom Osrin	Jaakko Kinanen	Lloyds Banking Group	Craig Smith
Bank of America Merrill Lynch	JO Hambro	Victoria Lawson	Paul Keys	Jonathan Wookey
Soren Pedersen	Peter Rutter	Stephen Lien	Jeremy Weyling	
Bank of England	Jefferies	Christophe Michotte	Lloyds of London	Chartered FCSI
Sean Murray	Mark Abbott	Jack Mortensen	Laura Parker	Abu Dhabi Investment Authority
Barclays	Ziad Jiryas	William Newton	Lloyds TSB	Simon Thorpe
Godfrey Cromwell	Julius Baer	Federica Nocera	Sharanjit Kainth	Asset Risk Consultants
Paul Keiser	Matthew Cox	Ozden Sayin	David King	Stephen McMahon
James Philip Robert Scott	Kotak Mahindra Bank	Ronak Shah	Chris Munson	Brewin Dolphin
Andrew Wakely	Narayan Subramaniam	Scott Souther	M&G	David Cadwallader
Bestinvest	Martin Currie	Louis Touati	Jill Neilan	Charles Stanley
Nicholas Clark	Darren Cannon	Mithil Vengurlekar	Man Investments	Mark Dobson
Brooks Macdonald	McInroy & Wood	Evgenia Zaytseva	Edward Redding	John Fletcher
Benjamin Palairat	Francis Seymour	Bank of London and the Middle East	Merrill Lynch	Charles Marment
Brown Shipley	David Shaw Stewart	Julie Yim	James Boulter	C. Hoare & Co
Charles Gibson	Merrill Lynch	Barclays	Jesse Koti	Oliver Murray
Butterfield Bank	John Chaldecott	Joseph Tuson	Christopher Law	Deutsche Bank
Stuart Gulvin	Rajan Rattan	BNP Paribas	David Matta	Peter Roper
Andrew Jenkins	Fei Yu	Jonathan Armstrong	NBK Capital	Dubai Financial Services Authority
Matthew Lazenby	Motilal Oswal	Siobhan Keegans	Bashir El Smadi	Ali Hassan
Charles Stanley	Nitin Rakesh	Sophie Scott	Nigerian Stock Exchange	Odyssey Analytic
Bruce Hendry	OCBC Bank	Brewin Dolphin	Bridget Igiehow	Alexandros Tselentis
James Rawlingson	Faisal Nasrullah	Vicky Casebourne	Pershing	Royal Bank of Scotland
Citico	Rathbone	Paul Whitehead	Jennifer Roche	Emma Pearson
Ramanan Guzadhur	Evangelos Assimakos	Brooks Macdonald	Personal Wealth Management	Standard Bank
Citigroup	Richard S Barratt	Jonathan Gumpel	Scott Edmiston	David Bushe
Ana Rebec	Pia Barratt	CISI	Rathbone	Thesis
Collins Stewart	Standard Chartered Bank	Matthew Cowan	Stacey Adams	Matthew Hoggarth
Robert Milroy	Roger Clay	Close	Matthew Simmons	
Coutts	Stonehage	Stephen Burton	Royal Bank of Canada	Chartered MCSI
Michael Firth	James Stevenson	David Mansell	Garfield Ramsay	Barclays
Irene Wolstenholme	The Treasury Solicitor's Department	Collins Stewart	Rothschild	Daniel Forbes-Ford
Credit Suisse	Carmen Georgeta Macovei	Manisha Mistry	Ian Lim	Brewin Dolphin
Simone Agrelli	Tir Na Nog Holdings	Deutsche Bank	Schroders	Robert Carroll
Giorgio Ambrosetti	Christopher Stears	Desmond Huang Yongchuan	Mary Kathleen Broekhof	Helen Higgs
Charlotte Bobroff	TTG	Duncan Lawrie	Tasha Franklin	Charles Stanley
Adam Edwards	Ian Marsh	Ian Johnston	Securities & Exchange Commission of Pakistan	Katie Presland
Jennifer Harrison	Victoria Capital	Financial Themes	Sajid Imran	Investec Bank
Ian McLaren	Inno Van Den Berg	Eugene Lawlor	SG Hambros	James Walker
Raffaello Nemni	Others	Friends Provident	Ioannis-Georgios Tzifas	Killik
Mark Widdup	Orlando Guerra	Miles Ashworth	Simmons & Simmons	Panyin Adu Sakyi Koram
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Financial Software	Ryan Mitchell	Raymond George Holton	Towers Watson	Andrew Pitt
Imran Khan	Al Hilal Bank	HSBC	Adam Bailey	Quilter
First Equity	Muhammad Saqib Ali	David Potterbaum	UBS	Gavin Mahindru
Peter Jeremy Lock	ALL IPO	Justin Roberts	Hardeep Rai	Other
Heptagon Capital	Mark Simmons	Sophie Ward	Vantage	David Hearne
Warwick Ryan	Ambrian Partners	JM Finn	Emma Porter	
HFL	Richard Morrison	Harkesh Kaul	Walker Crips	
Markus Gray-Krall	Anchoria	JPMorgan Chase	Amanda Brown	
HSBC	Babatunde Dada	Kelechi Onukogu	Whitley	
Philip Crawford		Killik	Sophie Outhwaite	
Mark Sinclair		James Hunter-Jones	Others	
			Michael Buckley	

This list includes membership admissions and upgrades from 27 March to 26 April 2012

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

ANNIVERSARY

Sixteen years on: financial ignorance remains hot topic



As the Institute marks its 20th anniversary, we have delved into the S&I/R archives to ask what has changed in relation to a key issue

The first opinion piece contributed to the S&I/R by the Institute appeared in the December 1995 edition. It commented on the need to address the "terrifying ignorance of financial affairs" among the public.

The column, then called A View from the Monument, said this lack of knowledge left people vulnerable to making poor financial decisions. "If people would expend a tenth of the time they take to choose a dog on either learning how to recognise sensible investment opportunities, or to choose a trustworthy adviser, it would be time well spent."

It said that the Institute had recently sponsored a schools' training pack in financial matters on the grounds that "a few drops in the ocean are better than no drops at all. "But how to persuade people that they have a part to play in their own protection?" the column concluded.

More than 16 years on from that piece, a poor grasp of basic finance among the public remains as big a problem as ever; as reflected by the CISI in a recent City View opinion piece in the S&I/R.

In a drive to help young people understand personal finance, the Institute has called on the Government to give 16-year-olds a free bank account of their choice, an initiative that has gained extensive media coverage. It also wants financial education to be fully integrated into the maths syllabus for schools and be tested. The CISI is working closely with the education sector to improve financial literacy, making headway in schools as well as universities. It offers a financial services introductory qualification for post-16 school students.

Is your firm interested in supporting the CISI's educational initiatives? If so, please contact the Educational Development team at educationdevelopment@cisi.org

CLIFFHANGER

Daniel Bland MCSI is proving a peak performer as a mountaineer and waterfall ice climber. **Lora Benson** reports



Daniel Bland MCSI

A DESIRE TO soak in the sun helped Daniel Bland to fall in love with climbing.

Daniel first tried his hand at the pursuit in northern Thailand five years ago while travelling following his graduation. He

recalls: "I spent a week caving in the area and eventually realised that, instead of crawling through potholes in the dark, I could get a suntan outside rock climbing."

Inspired by the experience, Daniel became a regular user of his nearest climbing wall centre in London when he returned to the UK. He has not looked back since, going on to tackle challenging summits in the UK and around the world.

"Climbing provides me with a sense of adventure and an adrenaline rush from the fear factor," he says. "And it's fun." Daniel fits his hobby around his job at investment advisory firm Bestinvest, where he has worked for more than four years. He is a Relationship Manager in the investment management team at the firm's office in London's West End.

Learning the ropes

He learned climbing by being accepted onto a course in the Alps run by a trust that trains young mountaineers. "Mountaineering is full of objective dangers, such as avalanches, rock fall, crevasses and storms, as well as the obvious climbing risk," says Daniel. "The course taught us about the risks, weather systems and safe climbing. You need to have good rope skills and understand how to protect yourself and your partner from falls."

"While indoor climbing and instruction teaches you the basics," he continues, "stepping outdoors is a huge leap. Only now am I becoming confident in leading difficult climbs myself." Aside from the Alps, Daniel's favourite climbing location is the Peruvian Andes. "The mountains are both remote and at a high altitude," he says, "making any climb a real expedition." Closer to home, he has tackled climbs including Avon Gorge, next to Bristol's Clifton Suspension Bridge, and in the Peak District and Lake District. At the top of his list of UK destinations are sea cliffs on the Devon and Cornwall coasts. "These are accessed," he explains, "either by an abseil onto a ledge above the sea, or a 'hanging belay', which involves securing yourself to the rock."

Part of Daniel's climbing education has been ice climbing. "It's a skill that you need to be comfortable with in the mountains, but when you take it as a discipline in itself, it offers some of the scariest but most exhilarating experiences." "In February, I climbed around a town called Rujkan in Norway, which is a mecca for pure ice climbing," he says. "The

entire valley is dotted with frozen waterfalls throughout the winter." It was there that he faced the most dangerous situation he has encountered since starting to climb, during an ascent of what should have been an entirely frozen waterfall. "We could not climb the last 'pitch' of the climb, as the ice had not formed and there was nothing to protect us if we fell," Daniel explains. "We had to abseil down and climb around a difficult section. Unfortunately we had only packed for climbing on ice and did not have the right equipment for the rock face in front of us." "To get around this, we made an improvised anchor, from which we would abseil using a knotted piece of rope jammed into a crack in the rock face. I drew the short straw and went first. I laugh about it now, but I really wouldn't want to do it again," he says. "This was followed by tough climbing to reach the top of the valley at night. Then we had to abseil from trees on the valley face to reach the bottom, where our

car was parked – conveniently next to a pub!"

Far from being put off by the experience, Daniel is hoping to tackle the Matterhorn, one of the highest peaks in the Alps, later this year, with a group of Finnish mountaineers he met in Peru. Such an expedition brings with it what Daniel has found one of his toughest challenges: coping with altitude. "On high climbs, the acclimatisation process is tough and there are no shortcuts," Daniel explains. "The hardest I have ever had to push myself physically was the last few metres of my first 6,000m peak," he says.

What attributes does Daniel feel are most important for a climber? "A level head and fitness go a long way," he says. "You also need to be able to endure hardship, as it can get cold and uncomfortable. But, to me, the real key is a sense of humour – you often find yourself having to either laugh or cry, and I know which I prefer!" ■

For further information, visit ukclimbing.com

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

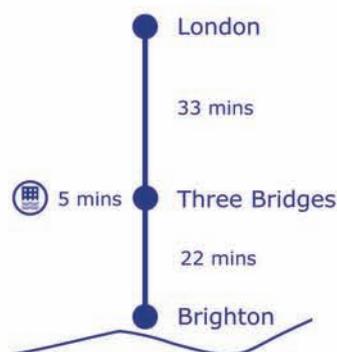


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