SECURITIES & INVESTMENT MARCH 2012

REVIEW

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

cisi.org/s&ir

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Separation of powers
What would a split from the rest of the UK mean for Scotland's financial services sector? p20

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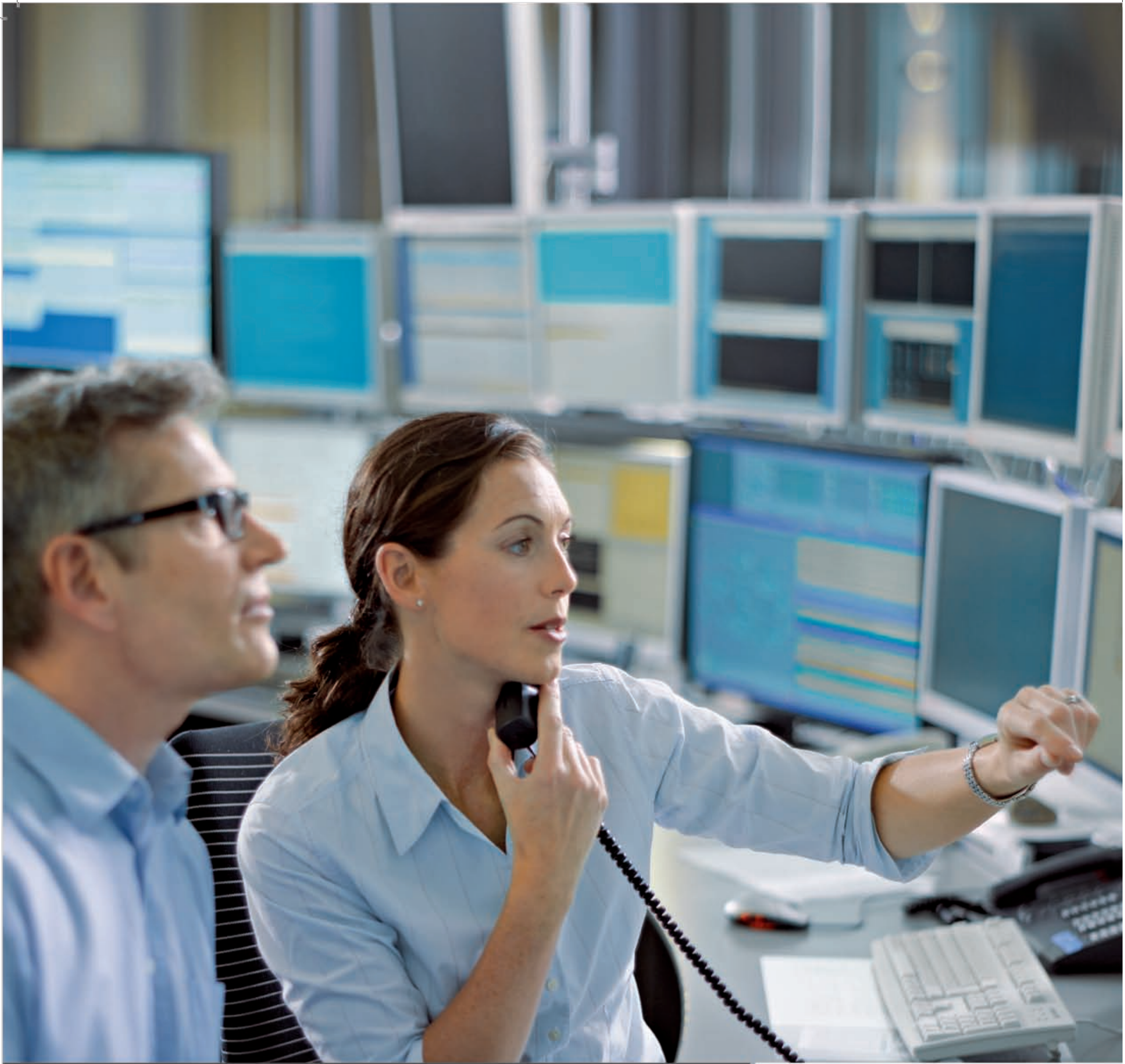

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CISI OPINION

The recent censure of high-profile names contrasts sharply with the punishment of JC Flowers' former chief executive. Is everyone in the financial services industry being dealt a fair hand?

Double standards

"**WHEN SORROWS COME**, they come not single spies, but in battalions." This line from Shakespeare's tragedy *Hamlet* might easily be applied to the current state of the financial services industry or, as politicians and the media like to refer to it, 'banking' or 'the City'.

In a short space of time, we have had the rather unedifying spectacle of near mob rule being used to determine whether Stephen Hester should receive a bonus and whether the former 'Sir' Fred Goodwin, Hester's predecessor as Royal Bank of Scotland (RBS) Chief Executive, should be stripped of his knighthood. While the mob was still celebrating its success, another matter that illustrates what is a major City weakness managed to sneak under the radar. And this is an instance where people really should get hot under the collar.

Ravi Shankar Sinha's activities in falsely billing a part of his employer for fees of £1.37m would, in any other circumstances, be described as a straightforward case of fraud, resulting in a court appearance at the least, with a strong possibility of a custodial sentence as the outcome. But in a perverse and inexplicable case, 'justice' is deemed to have been served by the perpetrator simply being fined and banned by the FSA. Where are the handcuffs? The oft-used phrase 'they just don't get it' certainly applies here.

Damaging?

The reputation of the City is ill served by this apparent reluctance of private-equity firm JC Flowers to support a criminal prosecution against its former UK chief executive, or of the police to press the case. An FSA fine and ban is an inadequate and inappropriate outcome. Compare this with the case of City lawyer Christopher Grierson, who was charged with false accounting after claiming £1m in travel expenses from clients and was reported by his firm to the police, or the Goldman Sachs secretary who was imprisoned for seven years for stealing £4m from her boss.

> ***Stephen Hester may feel justifiably aggrieved that the politicians who appointed him should feel no compunction to support him***

Meanwhile, Stephen Hester may feel justifiably aggrieved that the politicians who appointed him to shrink RBS and impose coherence and structure on its operations, a task that he has been carrying out with some degree of success, should feel no compunction to support him and, indeed, now feel it necessary to demonise him. Never mind that the law of contract and its enforcement is seen as a fundamental principle of the English legal system, leading to the large number of international contracts that cite UK law as paramount.

Readers who have attended a CISI Integrity at Work presentation may recall a slide quoting think-tank Z/Yen's survey on world financial centres that illustrates the importance of the "fair and just business environment". It is difficult to feel that those with their hands on the levers of power are not conscious of this. But their actions are certainly not supportive of it, and make David Cameron and Boris Johnson's '*Bienvenue à Londres*' invitation to French banks faced with a financial transaction tax sound rather hollow. ■

Upfront

News and views from the CISI

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

DINNER

From left, Sir Geoffrey Rowland, the Bailiff of Guernsey, CISI Managing Director Ruth Martin and Guernsey branch President Justin Oliver, Chartered FCSI

Guernsey event raises laughs and charity cash

The annual dinner of the CISI's Guernsey branch proved to be a good evening both for guests and a local charity.

Almost 600 people attended the event, which raised both plenty of laughs – with comedian Milton Jones as guest speaker – and more than £5,600 through a raffle for Guernsey Welfare, which helps families that are in need.

Those attending the function at Beau Sejour Leisure Centre in Amherst, St Peter Port included Deputy Lyndon Trott, Chief Minister, States of Guernsey, and Sir Geoffrey Rowland, Bailiff of Guernsey.

Guernsey branch President Justin Oliver, Chartered FCSI, gave an update of local committee activities, while CISI Managing Director Ruth Martin outlined the latest developments within the Institute.

The dinner was sponsored by BNP Paribas, AP Executive, Collins Stewart, ETF Securities and M&G Investments.

WEBCAST

CISI breaks new ground

Anthony Hilton

Budget day, Wednesday 21 March, will see the Institute's first live webcast.

The event, chaired by financial commentator Anthony Hilton of the London Evening Standard, will be held in front of a live audience at BT's City of London headquarters from 5.30pm–6.30pm. It will be screened via the internet to Institute branches and members across the UK and beyond.

CISI Chief Executive Simon Culhane, Chartered FCSI, said: "We want to help our members maintain their expertise and during the year we have invested, and will continue to invest, in technology to revolutionise our offerings. We have, for instance, introduced our own TV channel, CISI TV, which we are now able to stream to iPhones, BlackBerrys and Android handsets, so that our members can watch CISI seminars on the go. The *S&IR* is now available on your iPhone or iPad via a free app, downloadable from the CISI website. We are currently developing a new version of the app that will be designed with both smartphones and tablet devices in mind."

A number of branches and firms will be holding their own events around the Budget webcast, combining this broadcast technology with the opportunity for networking.

For more information, please visit *cisi.org/budget2012*

APPOINTMENT

New member for committee

Andrew Turnbull, Chartered FCSI

Andrew Turnbull, Chartered FCSI, has joined the CISI's Membership Committee.

As Divisional Director for Brewin Dolphin in Edinburgh, Andrew provides investment management services for private clients, trusts, charities and pension accounts.

He has nearly 30 years' experience in the financial services industry, working initially for Aitken Campbell in Glasgow and then Torrie & Co in Edinburgh before joining Brewin Dolphin in 2004.

Away from work, Andrew is a keen sportsman and has competed in a number of marathons and ultra-marathons.

Member memory

Kevin Petley, Chartered FCSI (membership number 18,648), is a CISI external specialist with more than 20 years' experience in the financial services sector. He is in no doubt that his success in Institute exams helped his career to flourish.

"In 1993, I was working for a private client broker, Matheson Securities, when I gained an award for the second highest mark in the UK for the Securities Institute's Investment Administration Qualification (IAQ). As we were a smallish firm, the directors were delighted and attended the ceremony, the first-ever IAQ awards, with me. The IAQ fulfilled the need for a training and qualifications structure for administration, settlements and operations staff and the kudos I got, coupled with hard work, led to a promotion to manager within 18 months.

"Then I took the CREST Settlement exam in 1996 and ended up getting 100% and the first CREST award for the highest mark. I got a call from the *Daily Telegraph* and it ran a small article on my success. My team put the article on the noticeboard and, as a result, some portfolio managers nicknamed me 'Brains'.

"I regarded my achievements as purely part of my role but the fast career progression and respect I got could not have been gained solely from job performance. I was invited to join the Institute's CREST exam panel and have performed work for the CISI ever since, branching out to half a dozen modules and assisting in ways such as writing and reviewing workbooks and developing exam questions. After 15 years I am the longest-serving member of the CREST panel. In 1998, I went on to secure a top job at Dublin's leading stockbroker. I have never really looked back, but I'll always acknowledge that gaining the awards greatly assisted my career advancement."

Do you have an early memory of the Institute?
Email *cisi.org/anniversary* and tell us your story.

12,219 *The number of hours of Institute CPD events and financial services hot topics watched by members on CISI TV since its launch last year. To catch up on CPD events, visit cisi.org/cisitv*

MEDIA

Bank accounts for young people – initiative gains national exposure

Martin Lewis

Calls by the CISI for the Government to give 16-year-olds a free bank account of their choice have been debated on two BBC national radio stations. The story was also picked up by *City A.M.*, London's free daily business newspaper.

CISI Chief Executive Simon Culhane, Chartered FCSI, was interviewed live about the proposal on both Radio 4's *Today* programme and for a consumer discussion on a Radio 5 Live show presented by Shelagh Fogarty.

He told listeners that the initiative would help young people to understand personal finance at an earlier age by engaging them directly in how to pay for goods and services electronically, to budget and save.

Speaking on the Today programme, Simon said that the Institute would take up its proposals with both the Department for Education and the Department for Work and Pensions and encourage "joined-up thinking".

Money-saving expert Martin Lewis debated the issue with the CISI CEO on Radio 5 Live and said that he had been won over by the idea.

The suggestion for young people to have a bank account opened for them at the same time as they receive a National Insurance number was first outlined by the CISI in the City View column in last month's *S&IR*.

What do you think? Email your views to CISI Communications Editor Richard Mitchell at *richard.mitchell@cisi.org*

CPD

What is good regulation?

Barbara Ridpath

Barbara Ridpath, Chief Executive of the International Centre for Financial Regulation (ICFR), will address CISI members on 9 May about what makes good regulation as part of the Institute's spring CPD programme in London.

Barbara and her colleagues have worked with senior market participants, legislators and regulators from around the world to focus collectively on solutions associated with this theme.

The event will take place in the Willis Auditorium, in the shadow of Lloyd's of London. This quest for good regulation is an important part of the ICFR's wider mission to bring clarity and a non-partisan perspective to the regulation of global markets.

Kevin Read, a leading tax trainer, will continue his series of tax updates on 17 and 18 April, focusing on issues such as the needs and circumstances of trusts and individuals in practical situations like death and divorce. He will also probe National Insurance Contributions, VAT and corporation tax.

For more information, please visit *cisi.org/capitalcpd*

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*

Tim Nicholson, second from left, with colleagues who helped to set up the Institute

Dear *S&IR*,
I enjoyed the feature in the February *S&IR* about the history of the Institute. Its 1992 launch was an exciting time. Would it fly?

Three things were key. Firstly, we already ran the compulsory regulatory exams for registered representatives and traders and the Stock Exchange's own Diploma exams, and had started the Investment Administration Qualification (IAQ) as well, so we had an existing exam business that could pay its way; membership subs would never have been enough to sustain us.

Secondly, we had solid support from senior individuals and key institutions in the City, for which full credit must be given to founding Chairman Graham Ross Russell and our Board. Generous 'grandfathering' enabled the top end of securities firms to become members without going back to the classroom, and they repaid us by showing great enthusiasm for insisting that henceforth their employees would take the tougher route through qualifications. A timely article by Barry Riley in the *Financial Times* in mid-1992 warned that grandfathering would soon end, which brought in sacks of applications.

Thirdly, individuals wanted to be part of it: for too long, training for the majority had been a haphazard affair. The Institute delivered agreed qualification standards and recognition for achievement, and it nurtured the 'My word is my bond' spirit. It worked because it was wanted, and the wonderful achievements since are testimony to its continuing to be essential to securities and investment firms and practitioners.

When I looked round a packed Guildhall at a dinner to mark the Institute's fifth anniversary, I knew that we had built something truly worthwhile that would last for a very long time. Very well done to all those who brought CISI to its current eminence.

Tim Nicholson, founding Chief Executive, Securities Institute (membership number 2 – lapsed!)

Dear *S&IR*,
As a member of the CISI, and conscious of its commitment to the improvement of professional standards and practices across the financial services industry, I feel compelled to table a new idea about how our markets might be better regulated.

A major contributing factor to current problems is that compliance officers cannot truly police a firm's adherence to being compliant with regulatory obligations independently from the business. The clear reason for this is that the business pays the salary of its compliance officers.

The age-old practice of a weak compliance officer being told (or indeed bullied) "look, find a way for us to make 'X' practice work to our profitability or we'll all be out of a job" causes a bias.

A solution worth exploring is that firms be forced to pay a fee, as part of a regulatory requirement, to the regulator. It would then appoint its own staff to be based within that firm's offices to independently oversee the compliance function (or perhaps oversee a number of smaller firms where such practice is not practical).

The same officer should, in turn, report directly to his or her supervisor at the regulator, confirming all is as it should be – and not to the company which it oversees.

Bryan Barnard MCSI, consultant, Romford, Essex

PUBLICATIONS

Revamped magazine for members

Change – the Regulatory Update is the new name of the CISI's regulatory magazine.

The revised name reflects that the publication is about recent and future changes in the world of regulation.

The latest edition is now available online in the members' area of the CISI website. The edition highlights how an avalanche of new regulations – from the G20 through the European Union and the FSA – is moving closer.

Firms need to prepare for significant changes to capital and liquidity requirements under Capital Requirements Directive IV (based on Basel III) and for central counterparty clearing of many over-the-counter derivatives. Both measures are due to come into force by the end of this year, although the latter could be delayed.

The FSA, during 2012, will require many firms to make 'living wills', implement the Retail Distribution Review and make more changes on client assets and transaction reporting. If this were not enough, non-US firms must also look this year to the extra-territorial application of US laws such as Dodd-Frank, for example on derivatives, and the Foreign Account Tax Compliance Act on reporting information on accounts used by US taxpayers to the Internal Revenue Service.

It is a full agenda for any compliance department, but management will also be involved, since the regulatory changes have a big effect on many firms' income and expenses.

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

2,002 The number of Chartered Fellows of the CISI in the UK and in countries around the world including Australia, Singapore, Vietnam, the UAE, China and Switzerland.

INFOLINK

Latest industry information online

A new version of CISI Infolink, an online library for members, has launched.

Infolink provides access to a range of information spanning the financial services industry, including the latest articles, regulatory updates, analysis of business trends, conference and seminar reports, interviews with industry leaders and research papers.

The updated site allows visitors to bookmark, rate and comment on content and share their expertise by submitting material for members to view.

Finding information relevant to your needs is easy thanks to a keyword and date-search feature and accessing CISI Infolink counts for members as 'reflective learning' hours under the CISI CPD scheme.

Visit Infolink at *cisi.org/mycisi*, where you will need to input your membership number and password.

SURVEY

Have your say

The CISI is urging its members to give feedback about the services and benefits it offers.

Its annual membership survey is currently being conducted, with members around the world having until 20 March to express their views.

Members can access and complete the survey in the MyCISI area of the Institute's website at *cisi.org/mycisi*

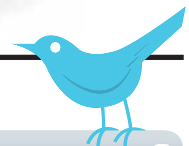
Those members who are at MCSI and FCSI level have also been sent a paper copy of the survey so can alternatively complete that version.

Alastair Pope ACSI, CISI Assistant Director of Membership and CPD, said: "As a Chartered body, we are now even more focused on ensuring that our membership benefits remain relevant and that they truly reflect our members' needs.

"Feedback from our members is important in helping us ascertain where we may need to enhance or change the services we offer. We would be grateful if members would spend a few minutes completing the questionnaire."

For full details about membership benefits, see *cisi.org/benefits*

ONLINE



BEST OF THE BLOGS

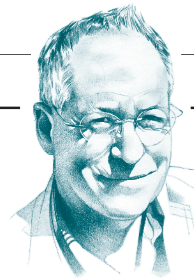
1 **tinyurl.com/7tqnjbp**
Fund managers would be wise to have a disaster recovery plan in the wake of the Retail Distribution Review (RDR), says John Lappin in his *FT Adviser* blog. He sees the RDR as a challenge to the traditional route to market for fund-management products. With a diminishing number of advisers (down by 7.9% in 2011, according to RS Consulting) and the expansion of self-directed investment, there will be different drivers of behaviour associated with the new charging structures. Lappin wonders whether comparison sites will become a source of new funds, and he suggests that "some of the money that paid commission will divert to more billboards or more trade advertising".

2 **tinyurl.com/87lts4b**
Merryn Somerset Webb at *MoneyWeek* believes that it isn't the RDR that poses the most serious competition to the financial-advice industry's profits, but online financial planners. Most people have generic financial needs, she believes, and it won't be long before an online planning tool capable of providing tailored, simple advice comes along. Her comments come on the back of a survey by CoreData Research revealing that the average price consumers say they are prepared to pay for an hour of advice is £39.

3 **tinyurl.com/89e8sbu**
Simon Webster at *MoneyMarketing* says that he quite likes the idea of being able to charge every client who walks through the door. With no commission on investment business from 2013, Webster, Director of financial planners Facts & Figures, has been trialling different fee structures and says: "Clients have no objection to paying us properly for decent advice and service, but good service is essential. It is vital that we make sure our definition of good service and the client's coincide upfront."

See page 12 for more on the RDR.

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



CLAY *'MUDLARK'* HARRIS

Back story on Gary Wright MCSI of B.I.S.S. Research

Gary Wright's career got off to an inauspicious start. Aged 16 and with an interview secured at jobbing firm Charles T Pulley, he had never been to the City, even though he had grown up only 20 minutes away in Enfield. "I never made it to the interview," he says. "I couldn't find the address and went home in a blind panic."

His mother calmly suggested that he ring the company to explain. The office manager couldn't have been more understanding. "Come in tomorrow," he said. "I'll meet you at Liverpool Street railway station." Gary got the job, the first step in a career that led him to senior European and global operational roles before taking an entrepreneurial turn with his creation of Benchmarking of International Systems and Services (B.I.S.S.) Research, a company that independently assesses vendors' products and services.

He left school in 1968 aged 15, joining a local bakery as a junior pastry chef. After a year, he decided to get out of the kitchen – not because he couldn't stand the heat, but because the promised college training was nowhere on the horizon.

His first job at Charles T Pulley was as a messenger, but a veteran took him under his wing and taught him how to handle bought and sold transfers. By the time his mentor retired, Gary was able to take on that role, as well as dividends and corporate actions.

When the office manager had a heart attack and needed time off to recover, Gary was asked to fill in for six months. He was 19, the youngest in the team. The boss returned but then decided to retire so, aged 21, Gary was offered the job permanently. The promotion doubled his salary, from £12 to £24 a week.

Although younger than his counterparts at bigger jobbers, he became involved in implementing Talisman, the Stock Exchange's first computerised settlement system, a role he repeated in the development of Crest.

> "'My word is my bond' is my mantra. It's a mantra for business and for life."

"The more I learned, the more I wanted to learn," he says. He met brokers to learn their side, building up relationships throughout the City. "You need to get out of the office. People call it networking. I call it research."

Hoare Govett bought Charles T Pulley, and Gary was one of the last new members of the Stock Exchange. That transferred into membership of CISI, "which is important to me because it's how I see people learning the broader aspects of the business," says Gary.

The Stock Exchange ethos lives on: "'My word is my bond' is my mantra. It's a mantra for business and for life."

Gary moved to Salomon Brothers as Head of European Operations, but it wasn't a good fit. He left after six months for the same role at Robert Fleming, where he spent eight years.

He became Head of Global Operations at Panmure Gordon but lost his job when WestLB bought the company from Nations Bank. It was a huge blow at the age of 46. "There were fewer than 20 jobs at that level that I could have gone for."

Gary, who is a committee member for the CISI's operations and IT professional interest forums, chose to learn about the supplier side of the business. After working on a project with Cap Gemini, he decided that consultancy wasn't for him. He then spent four years at Braid, learning how software is developed and marketed. He set up City Compass, holding themed conferences to bring together suppliers and buyers, before starting B.I.S.S. Research, which so far has established benchmarks in 12 areas. He also blogs regularly for Finextra. "As a back-office man, I was always an engineer without a voice," he says. "Now I have a voice."

Gary Wright MCSI

CEO, B.I.S.S. Research

Do you have a back-office story?

mudlarklives@hotmail.co.uk

Illustration: Luke Wilson

INTEGRITY

Morality matters

In February 1995, the then Securities Institute posed the following scenario to readers of the Securities & Investment Review. *It was the first of a number of ethical dilemmas, which after a gap of some years was relaunched as Grey Matters.*

Matthew was employed for a number of years by Whitesands, a small firm of investment advisers and managers, and, although registered as a CF30 financial adviser, was required to provide only limited advice to customers. He spent a large amount of his time simply taking clients' instructions and passing them to the dealers.

During the five years that Matthew spent with Whitesands, the only business he personally introduced to the firm was for members of his family, whose business was very valuable – possibly explaining Matthew's continued employment with the firm. The family was Matthew's sole specifically allocated client.

After five years with Whitesands, Matthew left the firm, having obtained a job with Leviathan Investments, where he started work after a few weeks of gardening leave.

A number of weeks later, Whitesands began receiving calls from clients of its investment management service saying that it had received letters from Leviathan, signed by Matthew, inviting them to move their business to Leviathan. The letters implied that Whitesands did not have the range of services and resources to meet the challenge of rapidly changing market conditions and that Leviathan offered significantly better and more wide-ranging facilities.

Matthew had evidently written to 400 of Whitesands' clients – apparently with the knowledge and support of the management of Leviathan, who were fully aware of the names of all of those Whitesands clients who had been approached.

What is suitable behaviour for Leviathan and Matthew in this situation? Has either party – or both – behaved unethically?

The CISI's modern-day response: "We suspect that readers today would have little difficulty in identifying that both parties have acted unethically. In fact, Matthew has gone further than simply acting unethically, as he stole proprietary information and is using it with the knowledge and consent of his new employer, who are thus accessories to his action."

Turn to page 24 to read this month's Grey Matters.

Ask the experts...

Richard Carter
Senior Fixed Interest Specialist, Quilter

WHY IS 7% THE AFFORDABILITY BENCHMARK?

Trying to explain the eurozone debt crisis in simple terms has always been a challenge, but the maxim that a country's debts become unsustainable above yields of 7% is a simplification too far. In fact, this is an arbitrary figure and was latched onto because it was not long before Greek, Irish and Portuguese yields climbed above 7% that they had to be bailed out by the European Union and the International Monetary Fund (IMF).

One of the countries now under the spotlight is Italy, and it has so far bucked the trend set by its counterparts. In Italy, ten-year bond yields have twice climbed above 7% in the past three months, but each time they have come back down and today stand closer to 6%.

Italy has, of course, been fortunate that the European Central Bank has stepped into sovereign-debt markets to reduce its funding costs. It has also benefited from the replacement of Silvio Berlusconi as Prime Minister by the reliable Mario Monti. However, Italy's funding costs do remain high and potentially unsustainable at these levels.

Alternative indicators

The question for sovereign-bond analysts looking at Italy and other markets, though, is how a country's ability to repay its debts should be properly assessed.

The main thing to remember is that looking at one indicator in isolation can be very misleading. For example, Japan's ratio of government debt to GDP is close to 200%, according to the IMF, which is far higher even than that of Greece, where the ratio is about 140%. Yet two-year bond yields in Japan, at the time of writing, are only 0.12%; they are close to 150% in Greece. There are many differences between the two countries, of course, but one significant distinction is that about 95% of Japanese government bonds are owned by domestic investors who are reliable supporters of the market, while the majority of Greek debt is owned by overseas investors.

Growth also matters, which is why the current cult of austerity in Europe might end up being self-defeating. If the rate of interest a country pays on its debts is higher than the economy's growth rate, then the burden of debt will increase relative to the size of the economy – unless the government is running a surplus. So emerging markets are generally better able to sustain high interest rates because these will be matched by high growth rates. Unfortunately, the same cannot be said of countries like Italy and Spain. The maturity profile of the debt also matters: the longer, the better.

Clearly, the size of the annual government deficit is very important too; the UK and the US look particularly weak on this measure, but at least they have been honest about the figures. The crisis in the eurozone really intensified when the Greeks admitted that they had not told the truth about the size of their deficit. This reminds us that of all the various measures, understanding how long a country can retain the confidence of the markets is the hardest to gauge, but possibly the most important.

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

Quilter

QUALIFICATIONS

Record PCIAM exam results

Newly published results show that record numbers of candidates have achieved success in the CISI's Certificate in Private Client Investment Advice & Management (PCIAM).

PCIAM is the qualification of choice for many experienced advisers in the wealth-management sector seeking compliance with the Retail Distribution Review (RDR).

Of 574 candidates who took this exam last November (the highest number in one sitting since its inception in 1987 as a London Stock Exchange qualification), a record 398 were successful. This represented a 69% pass rate. In all, 31 candidates earned distinctions and 119 received merits – both all-time-high figures.

The top-performing candidate, with a score of 94%, was Katharine Dymoke of Deutsche Bank Private Wealth Management in London.

Of her success, Katharine said: "Along with other people on my course, I was surprised at the breadth and depth of knowledge required to sit the exam, but attending the classroom sessions and utilising the course material was incredibly useful."

CISI Managing Director Ruth Martin said: "Our congratulations go to these candidates, who continue to excel themselves in their areas of expertise in these exams, combining busy jobs with after-hours study.

"We must also express our appreciation to the firms that have supported these candidates and invested in their development as the sector continues to demonstrate ever-higher levels of professional competence."

For further information about PCIAM and the countdown to the RDR, turn to page 12.

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. What rate of income tax is usually deducted from interest income paid by building societies?
A) 10% ***B)*** 20% ***C)*** 22% ***D)*** 40%

Q2. The FSA requires that all potential investors are supplied with a copy of which ONE of the following documents?
A) Application Form ***B)*** Key Features Document ***C)*** Simplified Prospectus ***D)*** Annual Report

Q3. Which ONE of the following publishes the UK Corporate Governance Code?
A) Department for Business, Innovation and Skills ***B)*** Financial Services Skills Council
C) Financial Reporting Council ***D)*** Confederation of British Industry

Q4. Which ONE of the following is used as a measure to calculate the variability of investments?
A) Correlation ***B)*** Covariance ***C)*** Discounting ***D)*** Standard deviation

Papering *over the cracks*

The European Central Bank's lending programme might have gone some way towards easing market anxiety, but the growth outlook for much of the eurozone remains bleak

HAVE YOU NOTICED? The 'eurozone in crisis' headlines have dropped away. Markets appear to have stabilised. Indeed, they have rallied since the start of the year, with some indices at their highest in six months. The reason for the change in sentiment is the soothing balm poured into the financial system by the European Central Bank (ECB) last December. Its decision to pump hundreds of billions of euros into the financial system to prevent a credit crunch for the region's struggling banks has worked. But it is no panacea. By offering eurozone banks unlimited three-year loans at ultra-cheap rates, the ECB has headed off an even worse crisis in Europe. Banks that were frozen out of commercial borrowing markets have been able to access funding. And, since everyone is doing it, there is no stigma. Moreover, though hard-pressed businesses and consumers have yet to feel any benefit in cheaper credit, there has been a notable side effect: the cost of borrowing for eurozone governments is falling. Banks, having borrowed money at just 1% from the ECB, are using it to invest in the debt issued by Italy and Spain that, only a few weeks ago, was yielding 6%–7%. Europe's leaders had hoped for as much. The ECB is pleased, too. It has not had to step up its buying of sovereign debt directly to bail out the eurozone's hardest-hit countries, because its so-called Longer-Term Refinancing Operation (the three-year loans programme for banks) has had much the same effect. Italian bond yields, which move inversely to bond prices, have fallen to their lowest levels since last November, and Spanish yields are at their lowest since October 2010. Both countries have had no trouble raising debt at recent auctions. This is important. Madrid and Rome need to be able to access borrowing at sustainable rates if they are to avoid being dragged down by the contagion from Greece that forced Ireland and Portugal to seek international rescues. The interest rates demanded by investors to hold Italian and Spanish debt will need to fall a good deal further, but this is progress. Hence the fall in the doom-and-gloom headline count. Investors, encouraged, too, by signs that the US economy may be on the mend, have been buying risky assets again. Stocks, commodities and emerging markets have benefited, along with the eurozone bond markets. But the issue at the heart of the crisis remains unresolved. A drop in borrowing costs will not be enough to save Italy and Spain unless they can achieve enough economic momentum to generate the revenues they need to reduce their debt burdens. From that perspective, the prognosis is only a little less dark than it was before Christmas. The International Monetary Fund (IMF) recently downgraded substantially its global economic forecasts, largely because it is more pessimistic about growth prospects in the eurozone. It expects a recession there this year, with especially sharp falls in output in Italy and Spain of 2.2% and 1.7% respectively. The combination of harsh austerity measures, a credit crunch and higher sovereign debt costs will hit hard, it says. One could argue that the ECB's action means that the IMF is being too gloomy. Possibly, but only at the margins. Banks are still unwilling to lend to anyone save the most creditworthy. Harsh fiscal measures being implemented by eurozone governments have yet to be sweetened by action on growth. Belgium has already joined Greece and Portugal in two consecutive quarters of negative growth – technically, a recession. That combination of revenue-sapping weak growth and huge debts could be deadly. In the meantime, watch Portugal. Although it does not have to return to bond markets until 2013 thanks to its recent bailout, investors have been betting against its ability to do so. Its recent downgrade to 'junk' status by Standard & Poor's, the third rating agency to take such action, means that fund managers have been offloading the country's bonds. Lisbon could follow Athens in seeking another bailout. That would be bad news. ■

> “ *The prognosis is only a little less dark than it was before Christmas* ”

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

Illustration: Johanna Ward

Step by step

The deadline for retail investment advisers to comply with the Retail Distribution Review is less than ten months away. So where should practitioners and firms be in their preparations to meet the requirements, and what issues do they need to consider?

FROM 31 DECEMBER 2012, the UK investment-advisory landscape will change dramatically with full implementation of the Retail Distribution Review (RDR). To continue their business, retail investment advisers will need to prove they meet FSA requirements in three areas: professionalism, remuneration and independence.

Professionalism

The question advisers should ask themselves is: "Am I in a position to apply for a Statement of Professional Standing (SPS) today?" If the answer is "no", advisers should take urgent steps. The deadline is 31 December 2012 for advisers to attain an SPS from an FSA-Accredited Body, such as the CISI, as proof of their competence. **The CISI recommends that all SPS applications are made to the Institute by 31 October. It guarantees that accurate SPS submissions received by this date will be processed by the end of 2012.** "We urge advisers to submit their application as early as possible," says CISI Managing Director Ruth Martin. "In view of the high level of SPS applications expected by the CISI, this will build in time to resolve any problems with submissions." Advisers will have a 60-day 'safety net' period after 31 December to obtain an SPS, but the CISI strongly advises practitioners not to use this extra time unless they have no choice.

SPS criteria

1. *Qualifications:* To achieve an RDR-appropriate qualification, at level 4 or above.

For many, the preferred RDR-compliant qualification is the CISI's level 6 Certificate in Private Client Investment Advice & Management (PCIAM). PCIAM became an RDR-transitional qualification in 2009 and, to the end of 2011, 2,607 candidates had sat the exam, with 1,844 successes – a pass rate of 70.73%. More than 1,000 candidates have already booked to take the qualification in 2012, and the CISI is holding extra exam sittings to meet demand. The final PCIAM sitting that is suitable to ensure RDR compliance is July 2012. Anyone looking to take PCIAM should be aware that the recommended study time for the qualification is 200 hours, which will vary according to knowledge and experience.

2. ***Gap-fill:*** **To fill any gaps between the content of the RDR-transitional qualifications and standards for new level 4 exams.**
This one-off activity is covered by structured learning, such as training courses, seminars and elearning. The Institute has recommended the minimum amount of structured learning required to cover these gaps and has set out options for advisers to consider (see *cisi.org/gapfillguide*). These include attending CISI relevant professional courses – an additional number are being held because of the high level of bookings – and taking RDR-related modules of its Professional Refresher elearning tool. Gap-fill can also be met through approved providers or advisers' own firms. For a list of approved gap-fill providers, see *cisi.org/gapfillproviders* The CISI provides a free service for members to verify that they have met RDR qualification and gap-fill requirements, prior to applying for an SPS (see *cisi.org/gapfillverification*). The latest FSA survey to gauge progress in meeting RDR requirements highlighted that 10% of advisers anticipate that they will not complete gap-fill until the final quarter of 2012. This will leave little time for it to be verified for SPS purposes.

3. ***Continuing professional development (CPD):*** **Advisers must complete a minimum of 35 hours of CPD annually, of which at least 21 hours must be structured learning.**
The CPD requirement will become mandatory for SPS applications made on or after 31 December 2012. Advisers seeking their first SPS prior to 31 December can, in principle, choose whether to receive a standard or basic SPS from the CISI. The standard SPS will specify that they have met the full CPD requirement, while the basic version will state that they do not need to comply with the standard in this initial year. The basic SPS will also be available to newly qualified advisers for their initial SPS. "The CISI anticipates that most applicants will seek the standard SPS, which is the way forward for the sector," Ruth Martin says. "Advisers considering the basic format are strongly encouraged to check their firm's own policy regarding this issue." The CISI is required to audit CPD, and this will apply to 20% of members each year. Advisers should ensure that they can verify entries within their CPD log.

4. ***Integrity:*** **Advisers must confirm adherence to the FSA's Statements of Principle and Code of Practice for Approved Persons. They also need to show compliance with a recognised code of conduct, such as that of the CISI.**

Progress report

Martin says: "In our sector, professionalism is viewed as something worth pushing yourself for, with a good proportion of advisers ahead of the game. "However, the CISI is keen to enable all its members to comply in good time. For example, if an individual is consistently failing exams, we will discuss the problem with them and help them to overcome difficulties, be they due to exam nerves or a particular part of the syllabus."
Ian Cornwall, Director of Regulation at the Association of Private Client Investment Managers and Stockbrokers (APCIMS), says: "We think that all our firms will meet the deadline. We believe members' training schemes will be fit for purpose in time for the RDR."

Robert Ward MCSI, recipient of the first SPS issued by the CISI, says that securing the certificate at an early stage has been a major benefit.

A Wealth Manager at Fyshe Horton Finney in Wymondham, near Norwich, Robert says:

"Since obtaining my SPS, I've been able to focus attention on my clients, which has been a great relief throughout the recent period of market volatility. I've been able to give peace of mind to clients about my position beyond 2012, and that has given them one less thing to be concerned about."

Illustration: Robin Boyden

Remuneration

***Requirement:* Firms must offer an adviser-charging model.**

New remuneration rules mean that investment advisers will no longer be able to receive commission from product providers. Rather, the charge for advice must be agreed with the client in advance, although the agreed fee can be deducted from the sum being invested. The aim is to reduce conflicts of interest for advisers in advising clients while being paid by providers. However, advisers will also be able to continue to receive 'legacy' (or trail) commission on funds sold before 31 December 2012. Ian Cornwall at APCIMS says that clarification on its application is needed from the FSA. Advisers will require clear consent to charge their clients who have not previously paid, and CISI Senior Adviser Christopher Bond, Chartered MCSI, says that this will create practical problems. The timeframe for consent is the biggest challenge: one firm took three years to get clients on board. This was due to having thousands of private clients and trustees, including those from overseas and many who were reluctant, says Bond. Linda Woodall, the FSA's Head of Investment Intermediaries, stresses that implementing a suitable adviser charge, based around clients' needs, "does not happen overnight". "It takes time to put together a proposal, communicate the change to clients and test it," she says. "In some cases, firms have had to look at two or three different models." Product providers are also undergoing big changes. These include IT support for a large increase in unit classes (sometimes hundreds), Bond adds. Some are reviewing their annual management charges (AMC). For certain funds, Schroders is reducing its AMC to take account of the payments previously made to individual advisers. Fidelity's future pricing excludes commission payments, and the firm is adapting its product range to fit within certain share-class restrictions. Recent research among financial advisers by accounting and consulting network BDO suggests that the ban on commission payments may not have its intended effect, with it being replaced by a structure that amounts to the same thing. Of those questioned, 70% said that remuneration would, with the client's authorisation, take the form of charges being deducted from the client's premium by the product provider. The provider would then pass back the charge to the adviser.

Independence

***Requirement:* A firm must use the term 'independent advice' or 'restricted advice' when disclosing the extent of its advice service.**

The independence aspect of the RDR is prompting advisers to scrutinise their product range more closely, says Bond. To be labelled 'independent', advisers must satisfy the FSA that they have considered a wide range of retail products, even if they subsequently deem some to be unsuitable for their clients. 'Restricted advice', the alternative to independence, is a label many advisers fear due to its negative connotations. This applies if they do not take account of products including some life products, collective investment schemes, exchange-traded funds and structured investment products, says Bond. The FSA's Woodall warns that a firm that is independent now may not necessarily be so in the post-RDR world: "The breadth of investment products that independent advisers will need to consider has been widened. To continue to be classed as independent, some firms will need to expand their service, conduct more research, update their systems and become competent in new areas." To protect their traditional practices, some advisers are looking to move into discretionary management (outside the RDR), says Bond, but they need to take account of clients' needs in doing so. Most advisers cannot fundamentally change the nature of the product advice they deliver by 31 December, although they can demonstrate a wider awareness of what is on offer in the market. One effective strategy is to identify key clients and work to achieve sufficient level of knowledge required to service them, or build up resources that can. As Bond says, customers usually select advice based on an individual they trust. Discussions with professionals who refer work can also help. For the future, the FSA's definition of independence is narrower than that proposed by the European Commission, which broadly limits restricted status to groups distributing their own products. There may, therefore, be further changes in this area in the next two or three years if the EU rules under Mifid 2 remain as proposed.

Regulator's RDR advice

The latest FSA survey to measure advisers' progress in complying with the RDR showed that 43% wanted clarification on one or more aspects of its requirements. The main areas where they wanted further information was gap-fill, structured CPD and adviser charging. The FSA has produced a guide, *RDR – is your firm on track?*, which can be used to check progress, prioritise and plan next steps (see *fsa.gov.uk/rdr*). "Our research and feedback from firms shows that the penny has dropped with most advisers as to the urgency of meeting the RDR requirements," says the FSA's Linda Woodall. "Time is of the essence – it's in advisers' interests that they do not go down to the wire in achieving compliance." ■

Checklist: Some points to consider

Professionalism

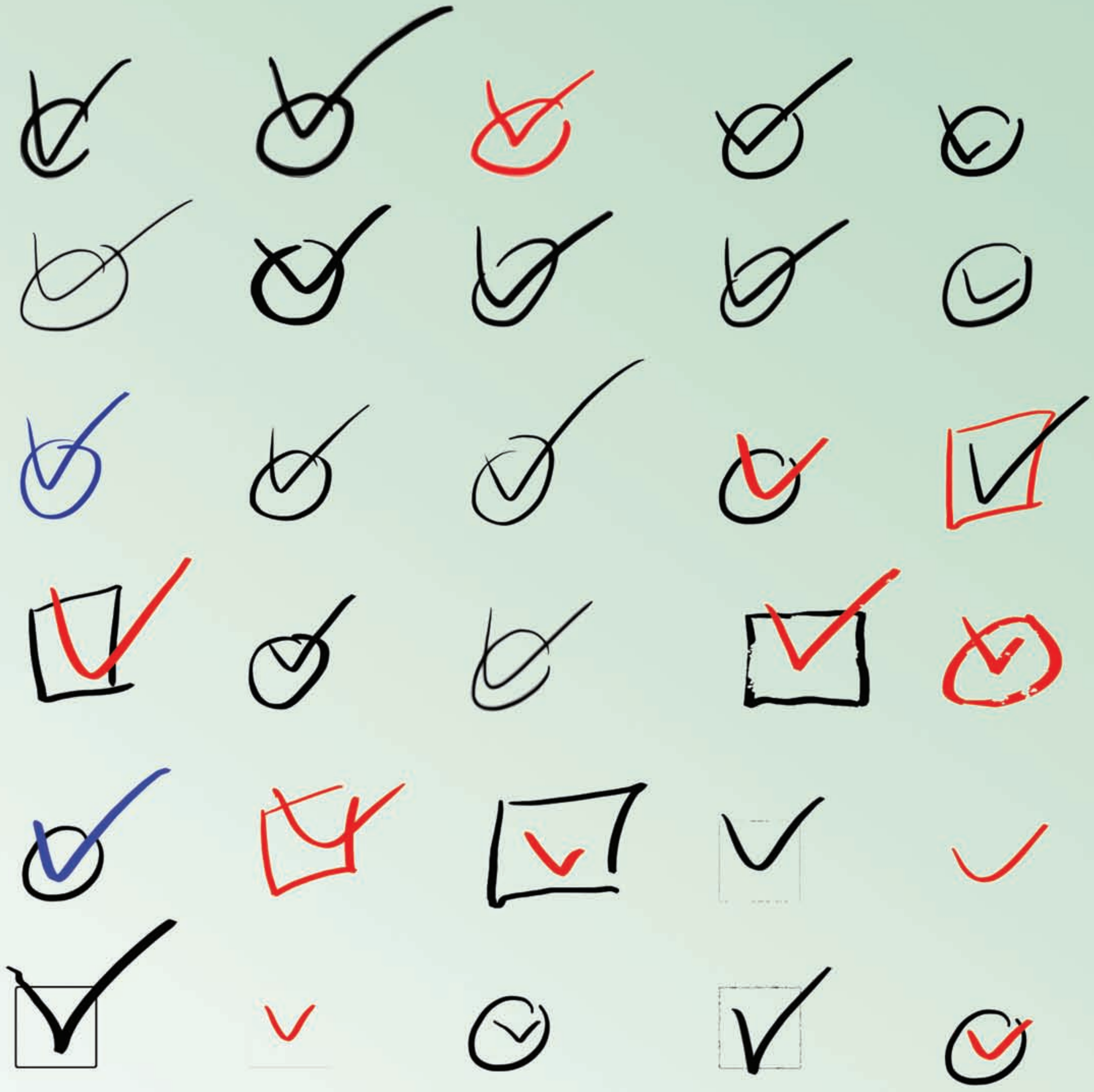
- Are you on track to meet your qualification and gap-fill requirements? ☐
- Will you aim for 35 hours of CPD this year and, if so, can your structured learning be verified? ☐
- Do you expect to be able to submit your SPS application by 31 October? ☐

Remuneration

- Have you considered segmenting your clients? It could be a challenge to offer the same type of service to every client ☐
- Have you considered which of your services clients need and which they can afford? ☐
- Have you decided how you will describe your services to clients so that they are clearly understood? ☐

Independence

- Does the service you plan to offer fit the needs of your existing clients? ☐
- Will you stop offering advice to some clients and, if so, how will you manage this change to ensure that you are treating customers fairly? ☐
- If you are moving to restricted advice, what will you do about those clients whose needs cannot be met by this restriction? ☐



Touch AND GO

If the imminent Greek debt restructuring fails to trigger credit default swaps, the consequences for Europe's banks could be disastrous, says **Hugo Cox**

WHEN THE *S&IR* went to press, an agreement between Greece and its private sector creditors was still elusive. The so-called private-sector involvement, which aimed to reduce the amount Greece owes private bond holders by half, had yet to be accepted by them. On 20 March, €14.5bn of Greek debt comes up for repayment; a solution must be found by then. Investors who have bought protection on their Greek debt via credit default swaps (CDSs) will be paying special attention to the detail of the deal. A default will trigger a payout by these instruments used by banks and investors to insure themselves against Greece's inability to repay its debt (see box, 'A guide to credit default swaps'). Currently, plenty of investors are uncomfortable with the 'voluntary' deal suggested by Athens – a 50% haircut on privately held Greek bonds. One option is to rewrite the terms of Greece's debt to include so-called 'collective-action clauses', where a majority vote will force the package through – regardless of objections. The problem is that such a forced restructuring would initiate payments on CDSs. Last October, eurozone leaders emerged from the Brussels summit with the proposed 50% deal, which seemed to garner private-sector support in February. According to the International Swaps and Derivatives Association (ISDA), the global trade organisation that frames the rules for CDSs, the terms of this proposed deal did not entail a default. The proposed exchange of the two sets of bonds was "not binding on all debt holders", ISDA said in a statement last November. As long as bond holders have the option to refuse the deal, it does not count as a restructuring and CDSs will not pay out. "Taken to an extreme, the outcome of this reasoning is that if 99.9% of the holders accept the exchange there is no credit event, but if 100% accept that would be a restructuring," explains Hubert de Vauplane, Partner at Kramer Levin Naftalis & Frankel LLP and Professor at the Paris Law University. As eurozone leaders dance around the terms of CDSs, investors are crying foul. "It makes a complete nonsense of the whole notion of CDSs," says one senior UK banker who wished to remain anonymous. Investors point out that losses to be imposed on Greek bond holders are greater than those on bond holders in corporates where CDSs have been successfully activated, such as that of US firm Dynergy, triggered in November 2011. Even ISDA concedes this. "It is possible that the events that have transpired regarding Greece and Greek debt might have triggered a bankruptcy credit event if we were dealing with a corporate," it said in its November

A guide to credit default swaps

In exchange for a regular fee from the buyer, the seller of a credit default swap (CDS) agrees to honour the repayment of a loan in the event of a default. In the case of sovereign CDSs, the sellers are typically banks and swap dealers – many based in the US. The buyer is entitled not to the entire loan, but only the 'post-default recovery value'. "In the case of the current Greek deal this would be 50% of the original bond, since investors would be receiving 50% of the value in the form of the new haircut bonds," explains Depository Trust & Clearing Corporation spokesperson Steve Letzler.

Until recently, anyone could buy protection using a CDS. However, from December 2011, only investors holding the underlying bonds on which the CDS offers protection are allowed to buy them. Outlawing so-called 'naked CDSs' aims to reduce the use of CDSs for speculative purposes.

Eurozone exposure to CDSs, February 2012

$3.2bn

Value of outstanding Greek CDSs

> $42bn

Value of outstanding CDSs for Italy and France

$500bn

Value of CDSs sold by US banks to eurozone counterparties on Italian, French, Irish, Greek and Portuguese sovereign and corporate debt

Source: DTCC, February 2012

statement. Eurozone leaders structured the proposed Greek bailout carefully in order not to activate the CDSs. On the surface this seems both unfair and dangerous. In the first case, the cash market is weakened. At precisely the time when peripheral European governments are desperate for bonds to be bought, investors will begin to doubt whether this exposure can effectively be hedged using CDSs. Worse, if the market begins to doubt the value of the hedge provided by CDSs, the sovereign debt that is bringing European banks to the brink of collapse would be enough to cause another bank failure. At first glance, it is difficult to see why eurozone leaders are so scared of letting the terms of the Greek haircut trigger Greek CDSs. Data from the Depository Trust & Clearing Corporation (DTCC), the US central counterparty, shows that the net exposure for all counterparties holding Greek CDSs in early February was about $3.2bn. This means that, when you offset all the CDSs sold with those bought at every bank and institution, there is only $3.2bn of exposure to a default left over. This pales next to more than $40bn outstanding on Italy and France together and is a trifling sum next to the nearly half a trillion euros set aside in the European Financial Stability Fund (EFSF). And the $3.2bn figure exaggerates banks' actual exposures. If the 50% haircut deal was enforced, the CDSs would only have to make up the other 50%, or $1.6bn. Finally, most of the exposure is collateralised: ISDA estimates that about 80% of banks' exposure to CDSs is already safely parked with the DTCC. The real worry of eurozone leaders is not the effect of activating CDSs, but the contagion risk from default itself. If CDSs are triggered as part of a disorderly default, the message is that the eurozone will not stand by private creditors to troubled European countries. And, while the eurozone must accommodate a Greek restructuring of some kind, default of a larger country like Italy or Spain would almost certainly spell the end of the current eurozone. When approached by the *S&IR*, the European Commission refused to comment on why setting off CDSs was so dangerous. But a spokesperson said: "It cannot be excluded that, under certain circumstances, a credit event may occur in connection with the Greek debt."

Where does this leave holders of CDSs?

No one in their right mind would voluntarily exchange an existing Greek bond for a new one of half the value. Only three quarters of bond holders were willing to participate in the far more generous 'voluntary' exchange agreed last July and later abandoned. Since then, according to *The Economist*, hedge funds have been buying Greek debt from European banks. These participants are even less likely to accept an unfavourable deal than the banks. Surely, bond holders will have to be forced. Not necessarily. European banks, which hold most of the debt, are desperate for liquidity from the European Central Bank; they took over €400bn of it in the auction last December of three-year loans. They may well 'voluntarily' do as they are told by eurozone leaders. ISDA has already pointed the finger. "We know that officials have put significant pressure on banks to accept the [50% haircut] deal. It does sound a bit like someone has made them an offer they can't refuse," it said in its November release. This looks like a nimble get-out for Greece. But it's not. "If the banks are forced to accept a 'voluntary deal', CDS prices would fall rapidly," says Christian Weistroffer, an economist at Deutsche Bank in Frankfurt. Confidence in CDSs, believes Weistroffer, has already been undermined by ISDA's treatment of the International Monetary Fund's bailout of Ireland in 2010 (see box, 'A test case'). If Greek CDSs do not pay out this time, then all the CDSs owned by Europe's banks looks close to worthless. This would mean that all the debt they hold of Portugal, Ireland, Spain and Italy looks unhedged. Failing to trigger CDSs could set off precisely the sort of contagion it was designed to prevent. "I've not seen this risk addressed by the law firms in their publications on the Greek restructuring question," says de Vauplane. Maybe this is what the hedge funds have been betting on by buying Greek debt. They have benefited from huge yields – ten-year yields were at 33% in February – and will end up with the full value of the Greek bonds. ■

A test case: Ireland in 2010

The sovereign crisis has yet to see the activation of a CDS on a European government bond. But many thought that it should have happened in November 2010, when Ireland was given a loan from the International Monetary Fund (IMF). Here there was a case brought to ISDA claiming that the IMF assistance put it at the top of the pecking order for repayment, triggering a change in 'seniority' of existing bond holders. In the eyes of the complainant, this constituted a credit event that should have triggered the CDS.

But ISDA rejected the case. "It wasn't convincingly argued," says Christian Weistroffer, an economist at Deutsche Bank in Frankfurt. "The issues they raised pointed to a restructuring event due to the change in the seniority of the claims, but the committee ended by saying that it was not."

How a European credit default swap is triggered

- A market participant makes a case to the ISDA Credit Derivatives Determinations Committee (DC) for Europe, the Middle East and Africa.
- The DC meets within a defined timeframe to consider it ("the DC simply applies the definitions to the public facts," says ISDA).
- As soon as a vote has occurred, the determination is posted on the ISDA website and each DC member's vote is made public.

SHARON BOWLES HAS a bad back. At her house she sits, grimly, leaning on a walking stick. She is certainly in pain, but what is really bothering her is having to clear up the mess left by the UK Prime Minister's veto of the Lisbon Treaty early last December. Bowles is Chair of the European Parliament's Economic and Monetary Affairs Committee (ECON), perhaps the most important committee in Strasbourg. It is responsible for refining European directives on financial services and their regulation before they are voted on in parliament. "I think the whole thing was completely misrepresented and missold," she says of the UK position on the financial transaction tax (FTT). "There was nothing that was protecting the City in what they [the UK delegation] were requesting," she says. "They were attempting to grab power back to the UK regulators, in a way that many in the City would actually oppose. "Large numbers of what I term 'the legitimate City' actually do believe in having this level playing field and common rulebook, and they don't like the idea of the UK regulators gold-plating everything." What was really behind the UK position, Bowles explains, was a fear that the FTT would be introduced via a levy. This would not require a unanimous vote and could have been hypothecated (ring-fenced) to bail out sick European banks holding sovereign debt. This fear, she believes, was unfounded: such a measure would not have received sufficient support. Besides, the UK has already let through two levies without insisting on a veto – including one for a Europe-wide deposit-guarantee scheme. If Cameron's argument was weak, his veto was destructive. "If there's something you don't like, just to rubbish it is worse than staying at home. Everything you're saying you don't like about it, they'll make damn sure you get." She reports that there has been a backlash around the drafting of European Market Infrastructure Regulation (EMIR). This is evident on three key fronts: in the working groups, which prepare issues for the Council of the European Union, the executive counterpart to the European Parliament; in the Council itself; and in the 'trialogue' meetings between the Council, the European Commission and the European Parliament. "Both in the Parliament text and in the Council text, things that are perceived as being what the UK wants are disappearing," she says, referring to the policy documents each produces that set out their positions on proposed legislation. What is especially frustrating to Bowles is that, before December 2011, there was a good deal of support for much of what the UK Government was proposing, including the segregation of retail and investment banks proposed in last September's Vickers Report. "There's probably a majority of European parliamentarians who are interested in spreading the Vickers proposals Europe-wide," she says. To the damage done to the City's prospects by Cameron's veto can be added the political fallout for Bowles herself. As the most senior Briton at the European Parliament, heading one of its most powerful committees (see panel, opposite), Bowles has just weathered an assault on her position. In the wake of the veto, veteran German MEP Elmar Brok announced that it was time to "marginalise Britain, so that the country comes to feel its loss of influence".

In the firing line

"They are aiming their guns at me," she says. Her comments before the summit (intended to emphasise the seriousness of negotiations) that Europe was "facing the demise of the euro by Christmas" were seized on by leading German MEP Werner Langen, who said that Bowles was "personally and politically not bearable any longer". For now, her position is safe: in January 2012, she survived a vote re-electing her as ECON's Chair. "The truth is, they can't really fault me," she says. "I have been a very fair Chair, and I think they know they're unlikely to get such an unbiased approach from other contenders." How can she be so confident? Bowles is a highly gifted technocrat, with a ferocious appetite for detail and a reputation for knowing the brief inside out. "I like things to work and I like them to be right," she says. In addition, she is bipartisan and independent in the chair. She steered the Alternative Investment Fund Managers Directive through from a first draft that looked likely to bar US hedge funds from distributing in Europe and would probably have elicited tit-for-tat pull-backs from Washington. Bowles attributes both her eye for detail and her political acumen to her career as a patent attorney (she remained a partner with her husband in their European patent business until she was elected ECON Chair). "I use my commercial negotiating skills developed from negotiating patent licences and being able to craft words that satisfy both sides in difficult circumstances," she says. "If I don't understand something, I'm usually the first person in the room to say so," she explains. "I know I'm no fool and if I don't understand it, then I can be sure somebody else in the room doesn't understand it – but they're too frightened to say." Bowles has been compared to Margaret Thatcher: they both trained as chemists and were subsequently patent lawyers. And despite Bowles's liberal roots, it was Thatcher who attracted her to politics. She was provoked by what she saw as an attack on British industry. "I felt that the cuts were too hard and that we were losing too much of things like manufacturing – there are parallels with today," she says. "It offended me that it was a woman, and, to boot, a woman scientist who had then gone and been at the patents bar as her career." Like the Iron Lady before her, it seems that there is not much that frightens the UK's senior European diplomat. While the personal pressure on her has softened somewhat since her re-election, she faces an uphill battle to get a fair deal for the City on forthcoming European financial regulation. You sense that she won't be afraid to remind David Cameron of this. ■

> *"If there's something you don't like, just to rubbish it is worse than staying at home"*

CV snapshot

2009 – Elected Chair of ECON (re-elected in 2012)

2005 – Replaces Chris Huhne as MEP for South East England

1992 – Contests Aylesbury constituency for the Liberal Democrats in the general election (again in 1997)

1987 – Stands in local council elections as SDP candidate

1986 – Joined by husband Andrew Horton in partnership

1981 – Qualifies as a Chartered and European Patent Attorney and establishes practice

1975 – Research for PhD in semiconductors, University of Oxford

1974 – BSc in Chemical Physics with Mathematics, University of Reading

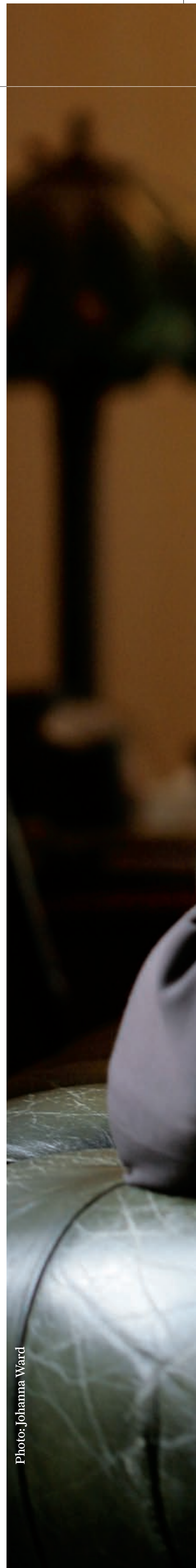


Photo: Johanna Ward

ECON

Sharon Bowles, a Liberal Democrat MEP since 2005, was elected to chair the European Parliament's influential Economic and Monetary Affairs Committee (ECON) in 2009. ECON is responsible for the regulation of the financial sector, the free movement of capital and payments, competition rules, tax provisions and the functioning of the euro. Bowles is the first-ever Briton to chair what is arguably the most powerful European committee. Under her leadership, it has steered through the Parliament key financial services directives including the Alternative Investment Fund Managers Directive, several versions of the Capital Requirements Directive enforcing global rules on capital definitions and requirements for banks, and the Markets in Financial Instruments Directive (Mifid).

The consultation process for the European Commission's review of Mifid, launched in December 2010, gave Bowles the opportunity to present her view on how European financial markets should develop. "I pointed out that, although we wanted tighter regulation and more control, we mustn't lose competition," she says, adding that her greatest achievement has been protecting this competitive landscape in the aftermath of the financial crisis.

Bowles is happier working in Brussels than Westminster. As she explains: "I have a connection with European thinking and the way things work in these multinational institutions.

"You have to understand the different philosophies and perspectives," she says. "You can't just bludgeon with the logic of your side."

Reluctant warrior

Hugo Cox talks to Sharon Bowles, Chair of the European Parliament's Economic and Monetary Affairs Committee, about battling both the UK and European parliaments

Split the difference

The Scottish financial services sector has gained its strength from the country's highly skilled labour force, relatively low costs and an attractive work environment. However, uncertainty over what a split from the rest of the UK might mean for business is frustrating firms' attempts to plan for Scottish independence, says **Ian Lewis**

OFFICIALS FROM SCOTLAND'S governing Scottish National Party (SNP) and the UK Government have been meeting in recent weeks in an effort to break an impasse over the timing and wording of a referendum on independence or greater devolution, but have yet to reach a compromise. The UK Government wants a vote to be held as soon as possible, while the SNP wants to wait until late 2014. CBI Scotland, which represents Scottish businesses, says that it wants the referendum to be held as soon as possible in order to remove uncertainty. David Lonsdale, CBI Scotland's Assistant Director, says that a referendum is also needed to deliver "a clear and decisive result, either for or against independence, without further questions that might muddy the waters".

Until politicians have sketched out what a 'yes' vote would mean, evaluating the impact of Scottish independence involves a lot of guesswork. "There's been a lot of talk about the timing of a referendum, but there has been little talk about what its impact is likely to be on business, so there is little to base an opinion on one way or the other," says Stephen Barclay, Chartered MCSI, Vice President of Operations in Morgan Stanley's private wealth management division in Glasgow, and the CISI's Scottish branch President. Owen Kelly, Chief Executive of Scottish Financial Enterprise, which represents Scotland's financial services industry, identifies five key battle lines that must be established before companies can evaluate the impact of a 'yes' vote. These are:

- the currency that an independent Scotland would adopt
- how, and by whom, monetary policy would be formulated
- the terms of an independent Scotland's membership of the EU
- the direction of financial regulation
- what Scottish independence would mean for the single UK market for financial services.

> ***"There's some trepidation – to say the least – in Scotland's boardrooms"***

"For all of these questions, we do not yet know enough to assess the implications for our industry and we will, in the coming months, be looking to find authoritative answers, as opposed to relying on assertions by politicians on either side of the argument," Kelly says.

Privately, another senior industry figure complains that the SNP's failure to frame the debate is frustrating business leaders' efforts to prepare their firms. "There's some trepidation – to say the least – in Scotland's boardrooms," he says.

Affordable incentives?

The SNP has been keen to stress its support for Scottish business, and the financial services industry in particular. The Scottish Government-led Financial Services Advisory Board has outlined a vision for the sector built on three pillars: strengthening Scotland's workforce; enhancing Scotland's image as a preferred location for financial investment; and ensuring a "fully conducive and supportive business environment".

In a report published last September, the Scottish Government made a case for cutting corporation tax in Scotland to 20% – six percentage points lower than the current UK rate and three points lower than the rate the UK Government plans to introduce by 2014/15. The report said that such a move would raise economic output by 1.4%, boost employment in Scotland by 1.1% and raise overall investment in the Scottish economy by 1.9% after 20 years. The benefit to financial services, it is claimed, would be considerable.

But economists have questioned

whether a newly independent Scotland could afford to cut taxes. In a report published in February, the National Institute of Economic and Social Research (NIESR) said that Scotland risked entering independence heavily indebted. It also said that, even with a favourable agreement with the UK Government over revenues from dwindling North Sea oil and gas reserves, income from that source was likely to remain volatile, potentially leading to large fiscal deficits if energy prices weakened. "An independent Scotland is therefore likely to find that the implicit constraints on economic policy, especially fiscal policy, are even more restrictive than the explicit ones it faces as a full part of the UK," NIESR said. More serious is the risk that, after independence, Scotland would have to pay more to borrow. Rating agency Standard & Poor's said last month that it could not guarantee an independent Scotland the same credit rating as the UK. These questions are important to the Scottish financial services industry, which was hit harder by the financial crisis than the sector in England and Wales. Employment in Scotland's financial services industry fell to 94,600 in 2009 – a drop of about 10% from the year before, according to the most recent UK Government figures. In Great Britain as a whole, employment in the sector fell some 6.5% to 1.06 million in the same period. But Scottish financial services still accounted for 8.9% of employment in the British financial services sector, while life and pensions business in Scotland accounted for 27% of the whole. "Morgan Stanley employs about 1,000 people in Glasgow, because there is a good source of graduates from Scottish universities and costs are competitive. I don't see that changing in the short term, unless it becomes more expensive to do business in Scotland compared with England," says Barclay.

Currency conundrum

Further questions arise over which currency an independent Scotland would use. Scottish First Minister Alex Salmond said last December that Scotland would keep the pound immediately after independence but that joining the euro was "a long-term possibility", though he said that it would need to be approved by the Scottish people. Neither option would give Scotland the ability to use its currency to ameliorate any economic hardship. If the euro were adopted, Scotland's financial services sector would face currency exchange and hedging costs with the US, which would be likely to remain its main trading partner even after EU membership. The recent history of small-nation financial centres, such as Iceland and Ireland – let alone Greece and Portugal – is not reassuring. The creation of an independent Scottish currency would create similar problems. Foreign-exchange issues would remain, but the currency might need to be pegged to a stronger one, such as the euro, to reassure investors of its future stability – a move that would again reduce Holyrood's room for manoeuvre.

Better regulation?

On the flip side, several small countries seemed to do a better job of financial regulation before the financial crisis. "Many of the states that achieved this are small, and Australia and Canada are conspicuous among them," notes economist John Kay in *Scotland's Economic Future*, a report published by the think-tank Reform Scotland. "The more restrictive and conservative stance of financial services regulators in these countries was one differentiating factor. Scotland might plausibly have been more like Australia and Canada than England or the US." The SNP has suggested that a banking meltdown on the scale experienced by the Royal Bank of Scotland (RBS) would not have happened if Scotland had been able to regulate its own financial services sector. Insiders note that a more conservative regulatory regime might have persuaded a bank with international ambitions, such as RBS, to relocate to another country.

Financial position

The Scottish Government says it does not think that increased costs associated with its new small-nation status will outweigh the financial benefits. It denies that Scotland is subsidised by the UK. The Centre for Economic and Business Research said in February that if Scotland were to receive 83% of North Sea oil and gas revenues – less than the 91.4% it would be entitled to if they were divided up purely on a geographical basis – its income would be roughly equal to the amount of taxes paid to the UK Government in Scotland. However, Holyrood's freedom to create an attractive tax regime for financial services may ultimately depend on what share of the UK's national debt Scotland takes on and has to service. The SNP thinks that that share should be around 35% of Scotland's GDP: £45bn. But some economists believe that the percentage could be more than double that; the figure will depend on the outcome of UK-Scotland talks at a later date. Other questions, such as how Scotland's defence budget would be financed, also remain unclear. Holyrood's funding position provides more uncertainty over what an independent Scotland could afford in order to attract and retain financial services. This is one of myriad questions that the industry needs answered before the commercial implications of independence can be considered by firms in Scotland. ■

What do you think? Email your views to CISI Communications Editor Richard Mitchell at richard.mitchell@cisi.org

Safety net

Collateral management is an increasingly important process in volatile markets, as **Stephen Booth** explains

IN THE CURRENT uncertain climate, protecting investments against counterparty default is key.

In the case of derivatives, collateral management has become all the more important. For equity derivatives, the majority of instruments are exchange traded, which means that an investor faces a clearing house and trades are subject to a regime of initial and variation margin, thereby minimising counterparty risk. However, most derivatives employed within fixed-income mandates tend to be traded on an over-the-counter (OTC) basis. This means that each derivative is bespoke and takes the form of a legal contract with a counterparty, such as an investment bank.

OTC derivatives such as interest-rate swaps are valued in a process known as 'mark-to-market', rather than their value being determined by a single price, as would be the case for an equity or a bond. Discounting models involving numerous data points are used to assess the derivatives' values. Most derivatives can have either a positive or a negative valuation, whereas conventional assets cannot fall below zero value.

When an OTC derivative is 'in the money' from an investor's perspective, the counterparty to the trade would be obliged to compensate the investor with a cash payment if the contract were wound up early by mutual agreement.

If market levels have changed significantly during the lifetime of a derivative contract, it is highly likely that one of the counterparties is sitting on a large profit, while the other party to the trade is facing a loss of equal magnitude. In these circumstances, the party in profit may have concerns about the risk of the counterparty defaulting, a scenario in which they would lose their mark-to-market gain.

To reduce this counterparty exposure, it is usually agreed that participants in an OTC derivative trade will pledge assets as collateral for their mark-to-market losses on the trade. These assets can be sold to make good any loss if the counterparty defaults.

Collateral is not a perfect solution and it does not necessarily protect all of the gain on an OTC derivative position. Derivatives change in value minute by minute as markets move, but it is impractical to seek to adjust collateral balances more frequently than daily. 'Gap risk' means that derivatives are collateralised only to the level of the previous day's valuation. Should a counterparty default, any further gain on the position due to subsequent market movements (and a large bank default will probably coincide with large market movements) may mean that the collateral is insufficient to cover the full valuation.

Recent regulatory initiatives, brought about by the Dodd-Frank Act in the US and European Market Infrastructure Regulation (EMIR) in Europe, are pushing for a wider adoption of OTC clearing. This will introduce the use of initial margin for OTC derivatives and reduce the scope for 'gap risk'.

Legal framework

OTC derivatives are usually traded under the auspices of an International Swaps and Derivatives Association (ISDA) Master Agreement. This legal contract was developed by ISDA and provides a standard template that is amended through negotiation between counterparties before trading commences. The ISDA Master Agreement stipulates the terms under which the counterparties agree to enter into the derivative transaction. It is common practice to negotiate a Credit Support Annex (CSA) at the same time as agreeing the ISDA Master Agreement. It is this CSA that determines what assets the counterparties are willing to post and receive as collateral, how frequently collateral is adjusted and what limits may apply.

When negotiating a CSA with a prospective counterparty, it is common practice to include a schedule that lists the types of security that are mutually acceptable to both counterparties, and the proportion of each security's value (the so-called 'haircut') that will be allowable for collateral purposes. This haircut may vary by credit rating and the maturity of each security, and is applied to allow for overnight fluctuation in the value of the security. Just because a holding in a security is worth £1m today does not mean it will still be worth £1m tomorrow. In effect, these haircuts ensure that there is a degree of over-collateralisation present.

The CSA will also specify variables such as threshold amounts, minimum transfer amounts and rounding. These are included to simplify the administration of collateral and ensure that excessive costs are not incurred through frequent transfers of small amounts. The cumulative effect of these, as well as the 'gap risk' discussed above, will mean that collateral balances held will never quite match the valuation of the derivative positions.

It should be noted that collateral is a two-way street: if you want to post a certain type of security as collateral, you must also be willing to accept it as collateral from your counterparty.

> ***Receiving cash as collateral means doubling counterparty exposure***

Cash as collateral

The use of cash as collateral is a double-edged sword, with significant advantages and disadvantages.

The obvious advantages of cash are that it is static in value, cheap to transfer and easy to administer. However, using cash as collateral has significant drawbacks. Crucially, receiving cash means doubling counterparty exposure. If you are facing a bank in a trade, then you have counterparty exposure to that bank. If a counterparty sends over cash as collateral, you then owe interest on this cash (usually at the overnight rate), so you need to earn interest to cover this. This means putting the cash on deposit – with another bank. It is possible to mitigate this exposure by using a money-market fund, but same-day settlement is required. Repo markets can also offer an overnight safe haven for cash balances, but require daily renewal.

In a stress scenario, banks display a nasty tendency to simultaneously default, increasing an investor's potential losses. Retaining cash in a portfolio specifically for collateral purposes can act as a drag on performance, especially for credit mandates. Cash posted as collateral is still owned by the portfolio from a performance perspective but, in the event of a default by the counterparty, the portfolio is an unsecured creditor in any bankruptcy proceedings.

Stock as collateral

On account of the drawbacks of using cash as collateral, it is common practice at most asset management houses to post securities as

collateral. Portfolio managers usually prefer to hold stock as collateral as it is less detrimental to portfolio performance. Prior to the Lehman Brothers default in 2008, corporate bonds were commonly deemed acceptable for collateral purposes. These days, counterparties prefer to restrict eligible collateral to highly rated government bonds. Nevertheless, using securities presents some disadvantages to the investor. Importantly, stocks need to be valued daily as their prices change. As a result, they are more demanding to administer than cash is. A transfer of stock collateral is still a physical trade and so settlement costs are incurred. Technical issues, such as coupon receipts and withholding tax on foreign securities, can also complicate matters.

Using collateral increases protection, but does not solve all the problems

The use of bilateral collateral under the ISDA framework has been one of the major steps forward in reducing the counterparty risks faced by investors. While the failure of Lehman Brothers in 2008 did highlight some imperfections in collateral procedures, many client losses were the result of thresholds being set too high or collateral not being adjusted daily, rather than the legal framework being brought into question. Prime brokerage clients also encountered problems with their collateral being re-hypothecated, but again this was a result of inadequate collateral arrangements.

The introduction of OTC clearing will reduce the importance of bilateral collateral relationships as clearing-house margins take over, but not all derivatives are eligible for central clearing and the existing collateral arrangements will persist for many years to come alongside the new infrastructure. Any investor considering the use of OTC derivatives should ensure that they have the appropriate legal agreements and collateral management infrastructure in place; otherwise, unrewarded counterparty risk has the potential to affect their investment returns severely when we next encounter a period of investment bank distress. ■

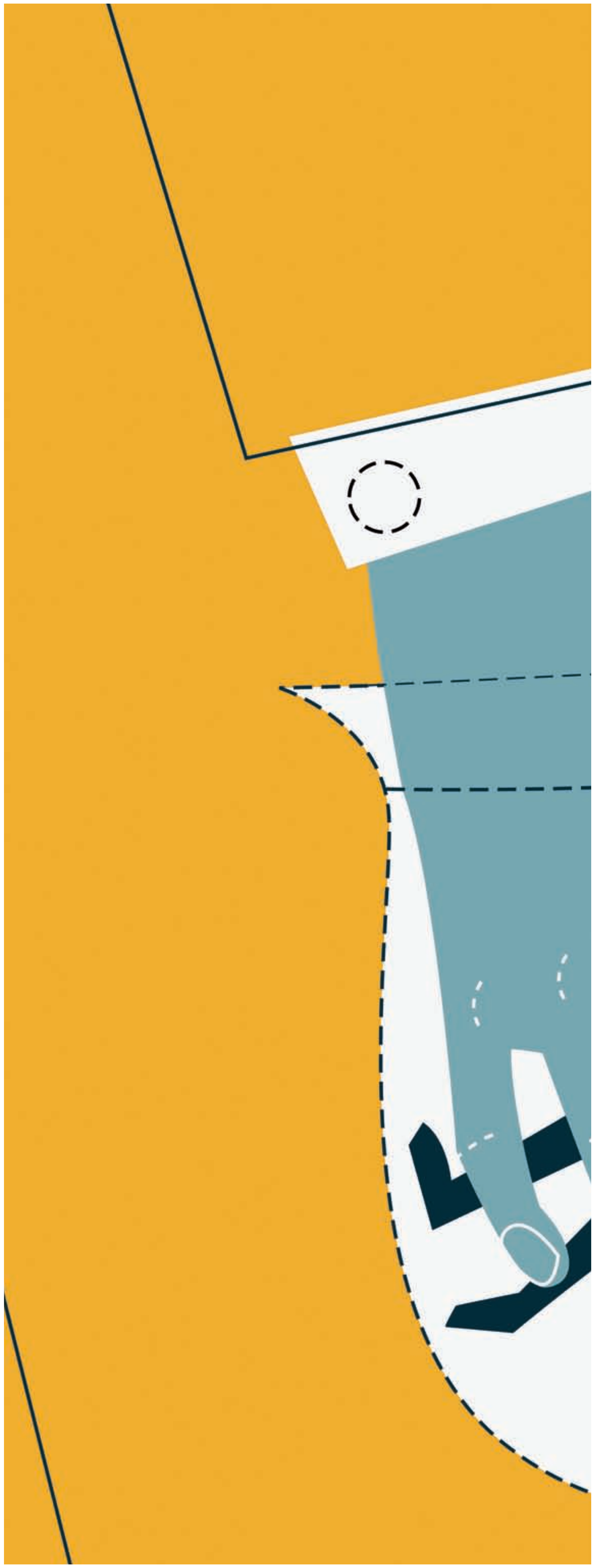
Stephen Booth
is Global Head of Fixed Income Derivatives at Aberdeen Asset Management

Aberdeen

Too close

FOR COMFORT?

A husband in government and a wife in big business: where should they draw the line between idle conversation and professional confidentiality?



CESAR AND MIRANDA have been married for 20 years and each of them has pursued a successful career in their respective fields. Cesar is a senior civil servant in the Ministry of Finance of Campanula, a small country, and is thus answerable directly to the Minister. Campanula has suffered large swings in its economic fortunes over the years, depending on which party was in power and, at the last election, the current Government campaigned on the need for high standards of integrity in office.

Miranda is Finance Director of L Gordo, a major trading company that exports large quantities of the various raw materials upon which Campanula depends as a significant source of foreign currency.

Campanula is going

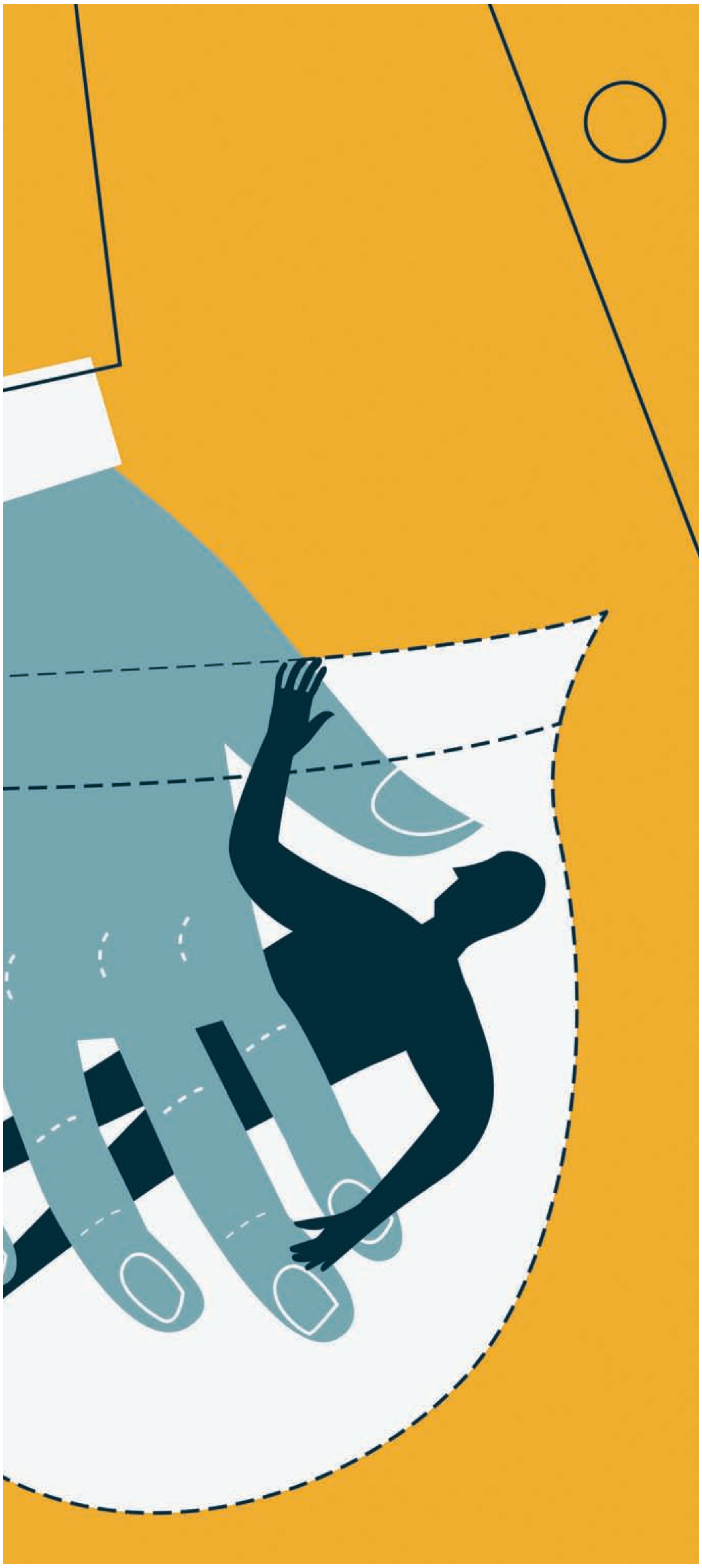
The opposition party is openly accusing the Government of being in the pockets of big business

through difficult times at the moment due to low global prices for its principal raw materials and Miranda is wondering how best to manage her company's currency flows in view of the price and exchange-rate uncertainties, which are also having a significant impact on L Gordo's financial performance.

At the same time, Cesar is working long hours at the Ministry and, on the rare occasions when he and Miranda spend time together, he complains increasingly about the unsustainability of the Government's economic policies, saying that they will bankrupt the country. However, in response to Miranda's question about whether he actually means it or is just speaking for dramatic effect, he simply shrugs and says that he cannot speak about anything specific.

On Monday morning, at the L Gordo executive team meeting, Miranda says that, in view of the ongoing economic uncertainties in Campanula, she considers that the firm's best interests would be served by selling forward its anticipated foreign-currency receipts over the next 12 months, rather than the three months that is its usual policy. She supports this by saying that the certainty that this will provide outweighs any possible price rises over that period, since world markets remain soft. The Chief Executive agrees and large transactions are entered into with a number of banks, which are completed before the end of the day.

Late in the evening, Cesar telephones Miranda and tells her that there is a crisis at the ministry and he does not know when he will be able to go home. In the event, Miranda does not see Cesar before she turns on the



television as she gets up the next morning. She hears an economic commentator saying that heavy selling of Campanula's currency was alarming the Government and there are rumours of the introduction of currency controls as a result.

Congratulations and recriminations

When Miranda arrives at work the next day, the Chief Executive asks to see her and congratulates her on her recommendation to the company and the timing of the action. Unfortunately, he adds, he has received a phone call from the Minister of Finance suggesting that L Gordo's actions are undermining the Government. The fact that there is a high-level connection between the Ministry of Finance and L Gordo through Cesar and Miranda leads to the obvious inference that what should be secure discussions within the ministry are being leaked. The Minister suggests that he expected L Gordo to take appropriate action, which he was sure would be reflected in the next round of mineral extraction licences to be awarded.

The Chief Executive asks Miranda whether she had knowledge of any government plans when she made her recommendation about currency sales, to which she replies forcefully that she was conscious to avoid any suggestion of impropriety and did not discuss anything specific with her husband. The Chief Executive tells her not to worry about it or the effect of the Minister's threats to L Gordo, because he is sure that the Minister is only posturing.

Late that evening, Cesar returns home and informs Miranda that he has come under great pressure from the Minister to resign. The Minister is looking for someone who is not a member of the Government to blame for the apparent 'run' on Campanula's currency, so that the ruling party can neither be criticised nor have its 'integrity' attacked. The opposition party is openly accusing the Government of being in the pockets of big business, and even some of the usually supportive media are suggesting the same thing.

Miranda tells Cesar that her Chief Executive has also come under pressure from the Minister of Finance to fire a senior executive at L Gordo, and that as it was she who suggested the currency trades, she is the most obvious target. However, the Chief Executive has said that he has no intention of bowing to populist pressure, notwithstanding that the Minister has suggested that a failure to take any action will imperil the possible award of valuable mineral-extraction licences.

Cesar and Miranda discuss what they should do in response to these threats, with a view to helping to resolve the crisis while preserving their own reputations for integrity. They talk late into the night, and the courses of action they consider are:

- neither Cesar nor Miranda should resign, since they each have clear consciences that they have not acted improperly
- Miranda should resign, since if no one leaves L Gordo as a result of this turbulence, it may have an impact on the award of mineral licences to the company, which would affect a large number of people
- Cesar should resign on the basis that he cannot prove beyond reasonable doubt that he was not the source of the information that caused the currency gyrations and, as the leading civil servant in the Ministry of Finance, his reputation must be impeccable
- both of them should resign, leave the country and, based on their skills and experience, obtain highly paid positions elsewhere. ■

What do you think?

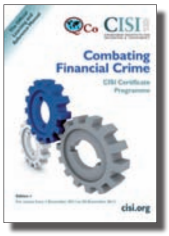
Visit cisi.org and let us know. The results, together with the opinion of the Chartered Institute for Securities & Investment, will be published in the May edition of the *S&IR*, and will also be posted on the CISI website.

Need to read

The latest publications and study aids supporting CISI qualifications

NEW WORKBOOK

Combating Financial Crime



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

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

Price: £75

NEW WORKBOOK

Global Financial Compliance

A new qualification, Global Financial Compliance gives candidates an introduction to international compliance. The *Global Financial Compliance* workbook covers:

- the International Regulatory Environment
- the compliance function
- managing the risk of financial crime
- ethics, integrity and fairness
- governance, risk management and compliance.

Price: £75

NEW WORKBOOK EDITION

Risk in Financial Services

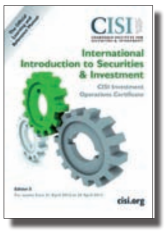
The objective of Risk in Financial Services is to ensure that candidates have a broad understanding of the general principles of risk in business; the key risks that arise within the financial services industry; the influence of corporate governance, regulation and codes of conduct; and the approaches that are typically used to identify, reduce and manage specific aspects of risk. A new edition of the *Risk in Financial Services* workbook (covering exams from 22 March 2012) is out now, covering:

- principles of risk management
- international risk regulation
- operational risk
- credit and liquidity risk
- market and investment risk
- corporate governance and risk oversight
- enterprise risk management.

Price: £75

NEW WORKBOOK EDITION

International Introduction to Securities & Investment



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

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

Price: £75

NEW WORKBOOK EDITION

ISA Administration

The objective of this exam is to ensure that candidates have a basic introduction to ISA administration as far as this relates to the needs of operations and administration staff. A new edition of the corresponding workbook is valid for exams from 11 June 2012 until further notice and covers:

- regulation and authorisation
- investors and applications
- investment rules and restrictions
- account income and tax claims
- account-holder rights and protection
- account managers' charges and expenses
- withdrawals, closure and death of an investor
- returns of information and HM Revenue & Customs inspections
- the Junior ISA.

Price: £75

ONLINE TOOL

Professional Refresher

The CISI's Professional Refresher elearning tool keeps you 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
- investment principles and risk
- financial crime
- professional taxation
- training and competence
- the UK regulatory structure.

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

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

Go to cisi.org/bookshop

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 specialist: 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 available at *cisi.org/externalspecialists*

Diary

Events to attend over the coming months

CISI annual dinner

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

Conferences

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

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

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

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

London CPD events

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

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

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

17 APRIL Vision and Values in a Volatile World
Gresham College, Barnard's Inn Hall, Holborn, EC1

18 APRIL Private Equity – Engine for Growth?
New Bridge Street House, 30–34 New Bridge Street, EC4

23 MAY Regulating the Regulators
Gresham College, Barnard's Inn Hall, Holborn, EC1

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

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

Branch events

15 MARCH Reputation Has Shareholder Value – How Do You Shape and Measure it?
Scotland: Royal Scots Club, 30 Abercromby Place, Edinburgh

20 MARCH The Middle Office: The Impact of New Regulations and Infrastructures
Manchester & District: BNY Mellon, 1 Piccadilly Gardens, Manchester

22 MARCH Risk Professional Interest Forum
Birmingham & West Midlands: Barclays Wealth, 1 Colmore Square, Birmingham

28 MARCH Bank of England Update
North East: Brewin Dolphin, Time Central, Gallowgate, Newcastle

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

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

Professional courses

Venue: London unless otherwise stated

13 MARCH Securing Competence & Professionalism £500

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

20 MARCH Integrity & Trust in Financial Services £300

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

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

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

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

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

3 APRIL Pensions & Retirement Planning* £500

4 APRIL Securities* £500

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

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

19 APRIL Anti-Money Laundering and Terrorist Financing Introductory Workshop £500

23/24 APRIL Understanding Regulation & Compliance £900

25 APRIL Investment Principles & Risk (PCIAM)* (Leeds) £300

25 APRIL Investment Principles & Risk (IAC)* (Leeds) £500

25/26 APRIL Investment Principles & Risk (LSE)* (Leeds) £900

25 APRIL Investment Principles & Risk (PCIAM)* (Manchester) £300

25 APRIL Investment Principles & Risk (IAC)* (Manchester) £500

25/26 APRIL Investment Principles & Risk (LSE)* (Manchester) £900

2 MAY Investment Principles & Risk (PCIAM)* £300

3 MAY Mastering Communication with Clients and Colleagues £500

9 MAY Securities* £500

10 MAY Introduction to Financial Markets £500

15 MAY Securities* (Edinburgh) £500

22/23 MAY Derivatives* £900

24 MAY Operational Risk: Taking it to the Next Level £500

29 MAY Securing Competence & Professionalism £500

30 MAY Investment Principles & Risk (PCIAM)* (Edinburgh) £300

30 MAY Investment Principles & Risk (IAC)* (Edinburgh) £500

30/31 MAY Investment Principles & Risk (LSE)* (Edinburgh) £900

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

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The following discounts are applicable only to one workshop per year: Affiliates 30%; Students 20%.

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Professional interest forums

Compliance events

David Moland, Chartered FCSI

Keeping up to date with changes in financial promotions, including the marketing of unregulated collective schemes, is a growing challenge for compliance officers.

Those increasing demands will be tackled by the CISI's compliance professional interest forum (PIF) at its next meeting on **21 March**.

A panel of experts will lead the discussion, providing a reminder of the key requirements and practical issues faced by today's compliance officer.

The panel will be headed by David Moland, Chartered FCSI, Head of Compliance at Arbuthnot Latham, and Tina Wishart, Chartered FCSI, Head of Compliance and MLRO, Williams De Broë.

David said: "Financial promotions was one of the first areas in which the FSA had a specialist unit, and ten years later this still remains a priority for the regulator. With the definition of a financial promotion covering all communications with clients, it is vital that compliance officers keep in tune with the ever-more complicated communications world we live in."

On **16 May**, Chris Taylor, Chartered FCSI, Non-Executive Director and Chairman of the Board Risk and Compliance Committee at GTB UK, and John Pearson, Chartered FCSI, Vice President at the Toronto-Dominion Bank, will, by popular demand, return to present an interactive role-play session at the following meeting of the forum, covering some practical issues and dilemmas faced by compliance officers.

A recent compliance forum event

To join the 700 members already signed up to the mailing list of the compliance PIF or to book a place at one of its events, please email complianceforum@cisi.org

The compliance forum is one of seven PIFs run by the CISI. The others cover corporate finance, Islamic finance, IT, operations, risk 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 for free as a CPD benefit. Students may attend one event of each forum annually. For more information about forthcoming meetings, visit *cisi.org/pifs*

SELECT BENEFITS

Digital deals for members

Office supplies and website design are just two areas in which CISI members can secure savings through the Institute's Select Benefits scheme.

The Buying Support Agency (BSA) consortium's stationery supplier guarantees to save its clients a minimum of 20% from their office-supplies spend. If they fail to save at least this amount, then the supplier guarantees to pay cashback of £500 to all clients who spend from £1,000 to £2,000 a year, and £1,000 to all clients spending £2,000 or more per annum*. In addition to this, BSA provides ongoing supplier-performance monitoring.

www.SiteWizard.co.uk A 30% discount on published design prices is available from *sitewizard.co.uk*, a low-cost website and ecommerce solution provider. For example, a five-page professionally designed website that would normally cost £599.95 is reduced to £419.97. The amounts quoted are minus VAT.

Included within the package is everything you need for a professional website: domain-name registration/renewal, bespoke website design, content-management system and unlimited email accounts.

For more information about how to obtain these deals and other fantastic savings, visit the members' area of the Institute website at *cisi.org/mycisihome*

*Terms and conditions apply. See website for full details. These benefits are 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.

DINNER

Stock Exchange invite

Calling all stockbrokers. You are invited to attend the annual charity dinner of the Stock Exchange Veterans Association on 19 April.

The event, which last year raised about £25,000 for worthy causes, will be held at the Brewery, Chiswell Street, in the City of London.

For further information, contact Nick Bealer, Chartered FCSI. Call *+44 7710 9612* or email *nickb@cornhillcapital.com*

ASIA

CISI members' savings on Hong Kong event

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

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

To secure the saving, members should quote the code CISI15 when registering. Non-members can receive a 10% discount by quoting CISI10.

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

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

Membership admissions and upgrades

MCSI

Abu Dhabi Investment Authority
Talha Kamal Anwar
Advisa
Shani Clark
Apex Group
Imran Hussain
Arbuthnot Latham
Deborah Phillpotts
Arcrate
Andrzej Borkowski
Raul Renjel
Ashburton
Luke Gale
Aviva
David Robinson
Barclays
David Jenner
Michael Shine
Mark Turner
Brewin Dolphin
David Myrddin-Evans
Myles Palmer
Brookfield Financial
James Hartigan
Brooks Macdonald
Jonathan Fletcher
Brown Shipley
Rajen Shah
CCLA
Elizabeth Carter
Charles Stanley
Richard Auld
Cheviot
Nigel Hibbert
Arthur Vestey
C. Hoare & Co
Vahag Harutunian
Clariden Leu
Kevin Sullivan
Coutts
David McLellan
Janet Tarbet
Credit Suisse
Brendan Whitely
Deutsche Bank
Martyn Holmes
James Knox
Euroclear
Mark Brocklehurst
F&C
Tiffany Roberts
Fleming Family & Partners
Edward Tollemache
FXCM
Maryke Faulkner
HSBC
Karen Boecker
David Sterland
Philip Wyatt
Intertrust
Xiang Wu
Investec
Peter Allen
JLT iimia
John Hockin
Kames Capital
Alastair Seaton
Killik & Co
Harry Bell
Lloyds TSB
Manuel Ostheider
Ministry of Finance & Planning
Uresha Tharangani Walpitagama
Nigel Sloam & Co
Guy Young
Nomura
Bernhard Straeter
Norddeutsche Landesbank Girozentrale
Laura Barker
Pilot Securities
Oluseyi Osunkeye
Planet Investments & Financial Planning
Terence Farrow
PricewaterhouseCoopers
Ebrahim Mashal
Principal
Simon Atherton
Hugh Weston
Rathbone
James Douglas-Withers
Rowan Dartington
Joe Dyer
Royal Bank of Canada
Charles Kendrick
Amit Kotha
Janine Reeves
David Vickery
Royal London
Mark Kennett
Schroders
Grant Hamilton
SG Hambros Bank
Peter Cork
Amanda Elkington
Lucy Pearce
Smith & Williamson
Michael Saunders
Swiss Re Services
Davinder Chatha
Vestra Wealth
Edward Sullivan
VSA Capital
Peter Joy
Walker Crips
John Frederick
Jeremy Inskip
Others
Rohit Balakrishnan
Natta Charusilawong
Kirsty Neale
Antonios Sobhi
Almas Tulepov

ACSI

Adi Ekwenugo & Co
Kingsley Ayozie
Aero Contractors Co of Nigeria
Adeyemi Adewojo
Aims Asset Management
Jerry Okoro
Amajon
John Amadi
Aon
Kiran Kumar
Asfem
Ibor Ojo
Asset Risk Consultants
Louise Gambie
Astral Waters
Azeez Gbadamosi
AXA
Rachel Dare
Barry Lawson
Baptist Boys High School, Sapon, Nigeria
Victor Enilolobo
Barclays Bank
Jason Benton
BNP Paribas
Patricia Dec
Dorothea Sogaard
Brewin Dolphin
Paul Cannons
Natasha Leach
Suzanne McGrevy
Brooks Macdonald
Robin Eggar
Christopher Anthony Macdonald
Andrew Shepherd
C. Hoare & Co
Sharon Reay
Capital International
Peter Miller
Central Bank of Nigeria
Ruth Madziga
Chalcedony Synthetic Fabrics
Samuel Olutade
Charles Stanley
Paul Cowland
Christopher Underwood
CISI
Asanka Wijeratne
Chellarams
Nurudeen Olokode
Cheviot Partners
Richard Vernon
DDCL Consulting
Bamidele Onwu
Daybrook Consulting
Finn Wheatley
Deutsche Bank
Daniel Cefai
Katharine Warburton
deVere
Paul Coleman
Tony Gardiner
Philip Hockin
Emirates NBD Asset Management
Ramapurath Ajitkumar Menon
Family Investments
Darren May
FBC Trust & Securities
Sikiru Salami
First Bank of Nigeria
Veronica Asem
First Global Knowledge Centre
Mohamed Mohamed Usama
Fleming Family & Partners
Helen Loring
Friends Provident
Mark Sutton
Adam Swales
Fyshe Horton Finney
Richard Davies
Edward Grierson
Naeem Siddique
GHC Capital Markets
Henry Metcalf
Greensprings School, Somulu, Nigeria
Samuel Agyare-Baffoe
HB Markets
Richard Campbell
HSBC
Jeremy Freer
Mark Langridge
Pratik Patel
Hybridan
Deepak Reddy
IEI Assets
Tunmise Adekoya
Ikoyi Club
Oluyemisi Samuel
IMEF
Tarek Aoun
Intercontinental Bank
Oludare Adekoya
Ben Okoh
International Energy Insurance
David Ajibola
Aniefiok Ephraim
Vincent Gbolade
J & E Davy
Christopher English
J.P. Morgan
Neil Cochrane
Ganesan Krishnan
Julius Baer
Jason Wayne Gooch
Killik & Co
Nicholas Brandram
Kinetic Partners
Stephen Stokes
Kleinwort Benson
Peter Lovelady
Sarah Solway
KPMG
Geoff Walsh
Kyte Group
Pamela Lack
Latham & Watkins
Daniel Maze
Lloyds Bank
Carlos Lopez
Makinson Cowell
David Watts
Markit
Evangelos Tzimopoulos
Meltemi
Kemal Cem Balcisoy
MillenniumIT Software
Milinda Kularatne
Moelis & Co
Charles Noel-Johnson
Morgan Stanley
Mohammed Zohaib Mujeeb
Nigerian Army
Daniel Emmanuel
Nigerian Stock Exchange
Yewande Adekunle
Bernard Ahanaonu
Anthony Ajungah
Joseph Asukwo
Bridget Igiehon
Bridget Igiehow
Fidelis Imiebiakhe
Obianuju Udoka-Ezike
Nosak Groups
Nosakhare Odigie
Olatunji Ojo & Co
Oyebola Ladipo
Pairstech
Dan Mischianu
Pass Associates
Emmanuel Moghalu
Perbadanan Tabung Amanah Islam Brunei
Mohammad Husaini Haji Md. Said
Pershing
Rachel Adams
George Ross
Christopher Williams
Pfizer
Moses Ademukola
Portland
Matthew Kiernan Lacey
Power Holding Company of Nigeria
Emmanuel Chibuike Onwuzuruike
Augustina Nwadike
PSigma
Francine Keating
Punch Nigeria
Victor Abba
Rathbone
David Coombs
Stephen Quick
Martin Sercombe
Raymond James
Barry Bennett
Charles Campbell
Redmayne Bentley
Jacqueline Kerr
Rivers State Ministry of Finance
Uche Ideozu
Royal Bank of Canada
James Shannon
Royal Bank of Scotland
Graham Brett
Sanderson
Katherine Usher
Securities & Exchange Commission
Hafsat Rafai
Seven
Camilla Ritchie
Skye Trustees
Adejuwon Ogunnuga
Smith & Williamson
Paul Boyle
Rupert Fleming
Vinay Raval
Spearpoint
Andrew Amy
Stanbick IBTC Bank
Abiodun Adebimpe
Standard Organisation of Nigeria
Januarius Inyang
Talos Securities
Lewis Hayes
Target Loan Servicing
Jag Kabir
The Share Centre
Christian Hutsal
Thomas Miller
Rita Kazinika
UBS
Aaron Sattar
Unileasing
Lukmon Sodunke
Union Registrar
Olaide Omotoro
United Bank for Africa
Babatunde Ololade
University of Maiduguri
Opeyemi Akinniyi
University of Ulster
Elizabeth Erin Cheyne
Last Aaron Kanengoni
VSA Capital
Peter Damouni
Charles Wilson
Whitefoord
Julian Ellis
Others
Olufunmiso Aremu
Anne Boden
Matthew Bridgwater
John Campbell
Joanna Elizabeth Dentskevich
Jane Dowbiggin
Samuel Forman
Arosha Indika Gunasekera
Fathima Hafsa Hathee
Ahmed Lawal
Mohammed Anfas Mohammed Anees
Robert Monkhouse
Lateefat Oba
Stephen Seward

Chartered FCSI

Brewin Dolphin
Graham Scott
Cheviot Partners
Edward Buxton
Goldman Sachs
Ryan Westmacott
HSBC
Douglas Barton
Phillip Young

Chartered MCSI

Brewin Dolphin
Christopher Mcnulty
Brown Shipley
Adam Horsley
Butterfield Bank
Ian Smith
Cardale
Jeremy Elder
Daniel Stewart & Co
James Sheehan
Graham Corry Cheevers
William Graham
HSBC
James Dickson
Phillip Securities
Angelina Foo
State Street
Karen Brooks
UBS
Daniel Edwards

This list includes membership admissions and upgrades from 19 December 2011 to 27 January 2012

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

Left, Junior in the winner's enclosure at the Cheltenham Festival, and below, limbering up at trainer David Pipe's race yard in Somerset

Horse power

Jon Farmer, Chartered MCSI, has pedigree when it comes to choosing a winner. **Lora Benson** reports

Jon Farmer, Chartered MCSI

MILLIONS WILL ENJOY a flutter on next month's Grand National, arguably the most famous horse race in the world, but few will have such a personal interest in the event as Jon Farmer. [redacted] Jon, who is Institutional Business Development Manager for Praemium in the City of London, is part of a syndicate that owns nine-year-old gelding Junior, joint favourite for the race. [redacted] He will be at Liverpool's Aintree racecourse on 14 April willing Junior to victory in the gruelling challenge, which takes place over four and a half miles and 30 fences. [redacted] "You can't get much higher than the Grand National in horseracing," says Jon, "so it would be amazing if Junior won. It would also mean a nice windfall for all of us in the syndicate – this year's race carries a record prize fund of £975,000." [redacted] A lifelong racing enthusiast, Jon decided two years ago that he would like to buy a share in a horse and joined the Middleham Park racing owners' syndicate. [redacted] He says: "I thought it would be much more exciting watching a race if I owned a stake in one of the runners. It was also a good excuse to visit racecourses around the country with my girlfriend Julie and friends." [redacted] Initially, he took a stake in a yearling called Another Citizen, who has gone on to win three races. [redacted] Then he struck gold by accepting an offer to buy a share in Junior, whom Middleham Park snapped up at auction for £35,000 in May 2010. [redacted] Junior has subsequently become only the eighth horse in a century to triumph on both the flat at Royal Ascot and over fences at the Cheltenham Festival. [redacted] He triumphed in the Ascot Stakes in 2010, and at the 2011 Cheltenham Festival won the Kim Muir Challenge Cup by 24 lengths, the widest winning margin at the racing meeting. [redacted] Jon says: "Many owners would be happy to have a runner at the major festivals, let alone a winner, so I feel very fortunate."

> ***"Members of my syndicate range from pub landlords to accountants and from office workers to builders"***

Riding high

Junior has been placed in 23 of his 32 races, and has won eight. He is trained in the West Country by David Pipe, whose father Martin is the most successful racehorse trainer in British history, and has been ridden by a string of top jockeys, including top Irish amateur Jamie Codd at Cheltenham. For the National, Tom Scudamore, son of eight-time champion jockey Peter Scudamore, is likely to be in the saddle. [redacted] "It's a real privilege for me to have access to the owners' and trainers' enclosure before races, where you are in the company of the jockey and trainer," says Jon. "And if you are lucky, you get to be in the winner's enclosure afterwards." [redacted] In all, Jon has shares in seven horses, which have enjoyed mixed fortunes. [redacted] He says: "It's a surprisingly affordable hobby – fellow members of my syndicate range from pub landlords to accountants and from office workers to builders. [redacted] "As well as the upfront cost of buying a share, you pay a monthly fee for the upkeep of the horse. You need to budget on the basis that you won't see that money again – any prizewinnings from races are a bonus. I receive regular updates from the syndicate on 'my' horses, in addition to being invited to stable visits, so I really feel like an owner. [redacted] "Watching Junior in the Grand National is going to be such a thrill." ■

*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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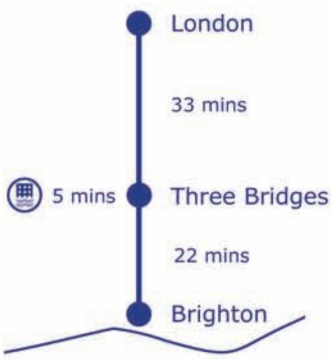
Dowgate Capital Stockbrokers Limited
Talisman House
Jubilee Walk
Three Bridges
Crawley, West Sussex
RH10 1LQ

Tel: 01293 517744
Email: neil.badger@dowgate.co.uk



Dowgate has been in business for over 20 years. We have just completed a management buy out and are looking for new investment advisers to join us. We offer a traditional stockbroking service mainly to private clients. In addition, we provide corporate broking services to smaller companies on the AiM market and can provide private client access to new issues led by us or other brokers, if appropriate.