

# REVIEW



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

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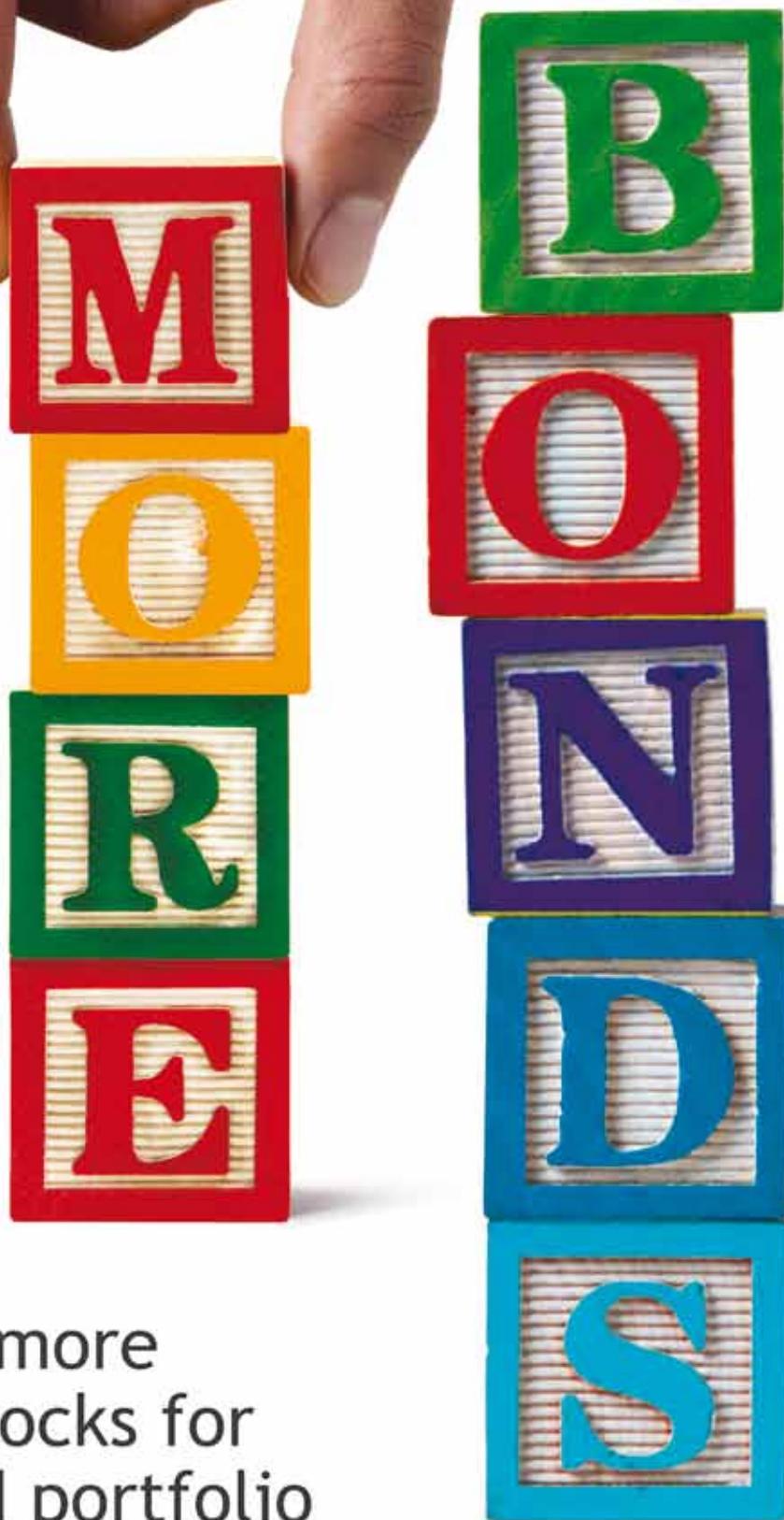
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## Harbouring *change*

Is the IMF ready to welcome  
emerging markets on board? *page 12*



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# REVIEW



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# Feathering the nest

CISI OPINION

*There are new requirements for employers to help employees save for their retirement, but do the changes exclude the most needy?*

**IN HIS INAUGURAL** budget in 1997, as part of what was to become the first of many stealth taxes, Gordon Brown, then Chancellor, raided the nation's pension funds by £5bn a year. This accelerated the decline among private firms that offered their employees a final-salary pension, which was then available to 34% of all private-sector employees but which fell to just 11% by the time he left government. Meanwhile, in the public sector, the participation rate of the 5.4 million Government employees benefiting from a final-salary pension held steady at 85%.

Possibly because it recognised the magnitude of the public purse's generosity, coupled with increased longevity, one of the final acts of the last Labour Government was to create the National Employment Saving Trust (NEST) under the Pensions Act 2008. NEST is an occupational pension scheme that is primarily intended to provide pensions for employees, and will have a significant effect on both employee and employer. Starting next year, it will require the three main stakeholders in an employee's pension to share the cost in accumulating assets for a money-purchase scheme. The employer will need to contribute 3% of the employee's salary, the employee will contribute 4% and the Government will provide tax relief at 25% on the employee's portion, so adding a further 1% and making 8% in total.

From next year until 2017, all employees will be automatically enrolled within 90 days of joining a firm into its existing pension arrangement or, if it is inferior to the scheme, into NEST. For the employer, this is potentially bad news. At present, the average participation rate in a private-sector pension scheme of any sort varies according to age, wage, type of employment and social class but, on a crude average basis, is about 50%.

The value of the average combined employer and employee contributions for private-sector pensions is between 7.5% and

12.5%. Hence, from next year, all employers – including those employing just one or two people – will be faced with an increase of about 1.5% (half of 3%) to their total staffing bill. The employee also faces a problem. NEST applies only to those earning between £7,225 and £42,475. This means that part-time and low-paid workers miss out because of the unintended consequences of what is, at first sight, a reasonable requirement. To participate and qualify for the 3% contribution from the employer and 1% from the Government, the individual needs to contribute 4% of their earnings. However, why does this minimum-income threshold and requirement to participate exist, especially as pension participation among the low paid is especially low, at less than 20%? If the employee opts out of the scheme, then no contributions are paid, which means that the employee forsakes the employer's minimum 3% contribution. Surely the main aim is to help the employee build up a pension fund to supplement the inadequate state pension? Having now legislated the principle that the employer must contribute towards every employee's pension, why discriminate against those most in need? After all, to misquote Maslow, those on the breadline need to satisfy their immediate, rather than their longer-term, financial priorities.

## **Inequitable life**

The rules around NEST appear to unintentionally penalise the very people who need to save for a pension most: those individuals on a low salary. Their inability to contribute has the unintentional effect of relieving their employers of their new obligation to contribute to the employee's pension fund. The requirement for employers to meet their commitment should not depend on the employee's ability to pay. Why is there a minimum

level? The employer should pay their 3% contribution, however little in absolute terms this is, regardless of the level of the employee's earnings. The principle is that the employer contributes, irrespective of artificial income barrier, which is currently set at the national insurance level. There is one other flaw. The administrator is Tata Consultancy, a commercial provider that has won a ten-year contract and is charging 1.8% of the funds invested, plus a further 0.3% of the funds under management. For a group

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***The requirement for employers to meet their commitment should not depend on the employee's ability to pay***

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scheme with many millions of investors, this looks expensive, especially compared with stakeholder pensions. Most company schemes will pay less than half the fee Tata is charging – and Tata is perhaps better known for its motor cars than pension expertise. Is this really the best deal on offer? Surely the existing main providers could have been more competitive? NEST is just on the horizon and will slip in amid the Retail Distribution Review and the Olympics. While in theory it is a positive step, it has some fundamental flaws that need correcting. ■



## QUALIFICATIONS

# Top results span the ages

The CISI has revealed record-breaking results from a sitting of its Certificate in Private Client Investment Advice & Management (PCIAM) exam.

The June sitting of the level 6 PCIAM, the qualification of choice for many advisers seeking compliance with the requirements of the Retail Distribution Review (RDR), produced a highest-ever pass rate of 77%.

Of nearly 480 candidates, 19 gained distinctions and 106 merits, both of which were all-time best figures.

Successful candidates were aged from 21 to 69. Some 84% of candidates were aged over 30, which reflects an interesting trend in those taking the qualification. In PCIAM sittings that took place just before the exam was approved by the FSA for RDR purposes, only 33% of candidates were over 30.

The CISI's level 7 Masters in Wealth Management exam results also generated record-breaking numbers: there were 103 entries for the Financial Markets unit, the highest figure ever. The pass rate for the Portfolio Construction Theory unit was 78%, the highest for this unit in six sittings. A total of 157 candidates have now achieved the full CISI Masters in Wealth Management qualification.

CISI Managing Director Ruth Martin said: "This outstanding success achieved by both our PCIAM and Masters candidates shows that firms and individuals are looking to achieve a competitive edge by aiming for higher-level exams, demonstrating excellence in their areas of expertise. They also show that there are no barriers of age or location; hard work and tenacity really have shown through in the results."

The CISI will run five further PCIAM exam sittings to June 2012, driven by the FSA deadline of 31 December 2012 for retail investment advisers to comply with the RDR rules.

For further information about the PCIAM, visit [cisi.org/pciamp](http://cisi.org/pciamp)

## PCIAM: case studies



Alan Harris,  
Chartered MCSI

The most senior candidate from the June sitting to pass the PCIAM was Alan Harris, Chartered MCSI. Aged 69, he is Branch Manager of Charles Stanley's Brighton and Hove office.

He said: "I hadn't sat an exam for 43 years, so it was quite a challenge. But I had the incentive that, unless I passed the PCIAM to help me become RDR compliant, I would have to retire."

"The exam is achievable at any age, but the work required should not be underestimated. No matter how experienced you are, you do learn a lot from it."



Alison Edmonds,  
Chartered FCSI

Dr Alison Edmonds, Chartered FCSI, aged 57, an Investment Director with Duncan Lawrie in Bristol, achieved a distinction. She had been "apprehensive" about taking the PCIAM, having not sat a written exam for about 30 years.

"It's hard work, but it can be done and it is worth it," she said. "To prepare for the exam, I studied for three months and took a training course. It was a useful exercise to refresh my knowledge, as requirements for retail investment advisers are changing so quickly."



Charlotte Yonge

The youngest candidate to receive a distinction was Charlotte Yonge, 23, an Investment Associate at Ruffer LLP in London. She said: "The broad syllabus of the PCIAM makes it useful for engaging with retail clients on a variety of issues. My employer considered it the best exam to support me in my role, with a view to my becoming a portfolio manager. It served as a good challenge and a complement to the practice of private client wealth management."

## SPS

# CISI becomes Accredited Body

The CISI has announced that it has become an Accredited Body for the purposes of the Retail Distribution Review (RDR).

Following its consultation over the summer, the FSA's Board has formally accredited the CISI.

The Institute is now authorised to issue the Statement of Professional Standing (SPS) to individual retail investment advisers who are CISI members, or the staff of corporate supporters. All advisers must hold a certificate by 31 December 2012 to show their competence.

CISI Chief Executive Simon Culhane, Chartered FCSI, said: "We are pleased that the Institute has been able to satisfy the FSA's requirements. Issuing SPSs marks an important milestone

in the efforts being made by all stakeholders to demonstrate high standards of professionalism in a sector that still needs to win the trust of the investing public."

Ruth Martin, CISI Managing Director, added: "I am delighted to announce that, from 1 October, our members will be able to apply to us to receive an SPS. Many of our members are keen to demonstrate that they really do represent the pinnacle of professionalism and we look forward to working with them as they prepare for the full implementation of the RDR."

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

For further information about the SPS, visit [cisi.org/rdrsp](http://cisi.org/rdrsp)

## VERIFICATION

# Get ahead of the RDR process

Retail investment advisers can take a key step towards compliance with the Retail Distribution Review (RDR) by checking with the CISI that they have completed appropriate qualifications and gap-fill. The CISI will issue a certificate to successful applicants confirming that these parts of the RDR requirements have been met.

By completing qualifications and gap-fill verification now, individuals will be able to speed up the impending application process for a Statement of Professional Standing (SPS). This is because they will not need to undergo the verification process for qualifications and gap-fill again when subsequently applying for an SPS.

One firm that has welcomed the verification service is JM Finn & Co. Arlene Kearney, Human Resources Manager at the firm, said: "JM Finn is working with the CISI to complete the verification process for all our advisers. It has given us confidence that we have already fulfilled much of this part of the RDR requirements and that we are nearing RDR compliance."

"The service is easy to use and we would recommend it to individuals and other firms."

Advisers or firms that wish to apply for verification can find more information at [cisi.org/gapfillverification](http://cisi.org/gapfillverification)

# 37 The number of modules offered by the CISI's Professional Refresher elearning tool, each with its own end-of-subject test. The latest module released covers Sanctions and Global Markets. Find out more at [cisi.org/refresher](http://cisi.org/refresher)



## AWARDS

# Scotland's top performers



Scottish award winners: Front, from left, Katherine O'Hagan MCSI, Judith Fraser, Halina Coltart, Chartered MCSI; Back, from left: Ashley Sanders, Forbes Morrison, David Gillen ACSI, Jack Allardyce, Ross Mathison, Michael Simpson

Eleven up-and-coming financial specialists have been recognised as Scotland's top performers in CISI exams. They were honoured at the Institute's Scottish Annual Awards Night and Dinner at The George Hotel in Edinburgh. Last year, candidates in Scotland sat more than 1,500 CISI exams.

The evening, the principal social occasion of the year for the Scotland branch, was

attended by 190 people and featured as guest speaker Bill Jamieson, Executive Editor of the *Scotsman*. CISI Scotland branch President Stephen Barclay, Chartered MCSI, gave an update about regional activities and acknowledged the outstanding contribution of William Macdonald, Chartered MCSI. William has served on the Scottish committee for nine years and was its President for five. Institute Chief Executive Simon Culhane, Chartered FCSI, spoke about developments within the CISI and the latest benefits for members.

A prize draw held on the evening raised about £1,700 for Action for Children, which helps vulnerable and neglected young people in the UK to achieve their full potential. Gift Aid, which enables charities to claim back tax paid on donations, increased the amount to about £2,100.

The event was sponsored by BlackRock and Michael Page Financial Services.

### Roll of honour

**CISI Diploma:** Halina Coltart, Chartered MCSI, Brewin Dolphin

**Diploma in Investment Compliance:** Katherine O'Hagan MCSI, Scottish Power

**Diploma in Investment Operations:** Kenneth MacDonald MCSI, Morgan Stanley

**Advanced Certificate in Operational Risk:** David Gillen ACSI, Morgan Stanley

**Advanced Certificate in Global Securities Operations:** Ashley Sanders, State Street Bank

**Investment Operations Certificate, also known as the Investment Administration Qualification:** Ross Mathison, Standard Life

**Certificate in Investments:** Jack Allardyce, Brewin Dolphin

**Introduction to Securities & Investment:** Judith Fraser, Ross Mathison, both Standard Life; Forbes Morrison, Baillie Gifford; Michael Simpson, State Street; Gordon Wilkie.

## LETTERS

### Postbag

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

Dear *S&IR*,

I write in response to two readers' letters in the September *S&IR*.

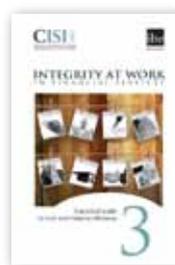
Firstly, Andrew Hall maintained that the article 'Russia on the rise' (July/August *S&IR*) was partial in promoting Russia as an investment opportunity. Had Mr Hall joined the audience at the CISI CPD event in May about prospects for the Russian economy, he would have heard three interesting speakers addressing both the downsides and opportunities in that country.

Secondly, Mark Brett argued that scrapping compulsory retirement at 65 will not reduce job opportunities for the young. We really must take risks and take time to help youngsters, rather than taking a complacent approach. If we cut a swathe through those highly paid people still in their positions who refuse to take responsibility for the recent crisis, we would create opportunities for energetic youngsters and those of all ages who had the judgment to see this coming. Being highly paid does not always equate to earning that amount - competence and skills should be the only criteria, which also entails sacking the entire Monetary Policy Committee.

What we have now is a poorly skilled, uncompetitive industry populated by too many whose attitude is 'I'm terribly experienced and should have my job'. As the US baseball player Doug Rader said: "If experience really mattered, Man would never have walked on the Moon".  
*David Hollins MBA, CISI student member*

## PUBLICATIONS

# Integrity at work



The CISI has published a third volume of its successful Integrity at Work in Financial Services series. The

book, which contains 12 new ethical dilemmas, is distributed to all CISI members in the UK with this month's edition of the *S&IR*.

Members outside the UK will have access to an electronic copy of the book via the members' area of the CISI website. As before, the book is divided into two sections. The first section contains situations designed to be helpful to those in the early years of their career, while

the dilemmas in the second part are appropriate for more established practitioners.

The book was launched formally by CISI Chairman, Alderman and Sheriff Alan Yarrow, Chartered FCSI (Hon) at the CISI Annual Lecture, an integrity debate in the City of London on 22 September. A full report of the debate will be published in the November/December issue of the *S&IR*.

• The CISI has delivered its interactive Integrity at Work seminar to financial services practitioners and students in the Cayman Islands. Two sessions, presented by CISI Chief Executive Simon Culhane, Chartered FCSI, took place at the University College of the Cayman Islands, which is the CISI's main Cayman training provider.

## REGULATION

## Jersey and the Isle of Man to mirror RDR

The CISI has welcomed moves by regulators in Jersey and the Isle of Man to raise professional standards by adopting their own versions of the Retail Distribution Review (RDR).

The Jersey Financial Services Commission (JFSC) and the Isle of Man's Financial Supervision Commission (FSC) both propose to increase the minimum required qualification level for retail investment advisers from level 3 to level 4. Under their plans, advisers will also be required to hold a Statement of Professional Standing (SPS) as proof of their competence to continue to practise.

CISI Chief Executive Simon Culhane, Chartered FCSI, said that the Institute was particularly pleased by the proposed uptake of the SPS in Jersey and the Isle of Man.

He said: "It is well known in other professions that practising certificates provide an easy and effective way for consumers to ensure that they are dealing with a professional who is fully up to date and operates to a high standard. However, we believe that compulsory continuing professional development is also required."

The raising of the qualification threshold and introduction of the SPS are in line with requirements that will come into force for retail advisers in the UK under the FSA's RDR from the end of next year. The proposed deadline for practitioners in Jersey and the Isle of Man to meet the standards is 1 January 2014.

The CISI, as a leading professional body for the industry, is involved in working parties established by the JFSC and FSC to develop their plans. On 12 October, the CISI will hold a joint update in Jersey with the JFSC about the RDR, known in Jersey as the Review of Financial Advice. For further details about the event, turn to page 28.

## QUALIFICATIONS

## Opportunities in Tunisia



Adel Grar, President of the IFBT

The CISI is helping to improve financial services training in Tunisia. The Institute's International Investment Management exam is being integrated into updated qualifications requirements for practitioners who want to work in areas including order

placement, portfolio management, wealth management, audit and control.

The exam is being offered by the Institut de Formation de la Bourse de Tunis (IFBT), the training centre of the Tunisian Brokerage Houses Association. The first candidates are due to sit the exam in November.

Adel Grar, IFBT President, said: "The IFBT sees itself as a guardian of professional finance training, with a commitment to offering new opportunities to Tunisian professionals in an effort to prepare them to take their place in a challenging global career space."

The CISI's Director of Global Business Development, Kevin Moore, Chartered MCSI, said: "We're delighted to be working with the IFBT to help develop the financial services sector in Tunisia by raising professional standards."

# 7

The number of CISI professional interest forums (PIFs). Free to members, PIFs provide an opportunity to hear from practitioners and join in discussion. For further information, visit [cisi.org/pifs](http://cisi.org/pifs)

## ONLINE

## BEST OF THE BLOGS

### 1 [tinyurl.com/projectsyndicate](http://tinyurl.com/projectsyndicate)

Former International Monetary Fund (IMF) Chief Economist Kenneth Rogoff writes in *Project Syndicate* that the organisation is covering up the extent of the eurozone's debt by "sycophantically" supporting each new bailout plan and committing more than \$100bn to Greece, Portugal and Ireland. The IMF, he says, needs to push for a solution to the debt crisis that involves "either partial break-up of the eurozone or fundamental constitutional reform".

### 2 [tinyurl.com/paulkrugman-nyt](http://tinyurl.com/paulkrugman-nyt)

Paul Krugman, for the *New York Times*, wonders whether the appointment of "serious, responsible, and judicious" Christine Lagarde as IMF chief will mean a shift towards a more "sensible" approach. He contrasts this with predecessor Dominique Strauss-Kahn's leadership, under which the IMF was "staking out a position as the least dogmatic, most open-minded of the major international organisations". Krugman hopes not; in the current economic climate, he says, "conventional prudence is folly".

### 3 [tinyurl.com/economist-audioreview](http://tinyurl.com/economist-audioreview)

An audio discussion by correspondents on the *Economist's* 'Newsbook' blog focuses on how the IMF

must be wary of its perceived bias towards countries in the eurozone. This is because emerging and developing countries have tended to see the IMF as being much more closely aligned with the interests of its major shareholders. "Now you have this unique situation where the bulk of the lending is actually to two countries in the eurozone," says Saugato Datta. This is raising questions about the Fund's neutrality, as Zanny Minton Beddoes comments: "In terms of rules about how much money countries can borrow relative to the size of their economies, they've all been broken in the case of the European packages."

### 4 [tinyurl.com/domenicolombardi](http://tinyurl.com/domenicolombardi)

Domenico Lombardi, writing on the *Financial Times*' 'Economists' Forum' blog, looks at Christine Lagarde's to-do list. At the top of the pile, he suggests, is the Greek crisis, followed by the global economy and the G20's mutual assessment process, and then the small matter of reforming the IMF's governance in line with reforms agreed at the G20 summit in 2010.

See page 12 for a full discussion of the IMF's role.

### Do you have a blog recommendation?

Please send it to the Editor: [louise.reip@wardour.co.uk](mailto:louise.reip@wardour.co.uk)



## SURVEY

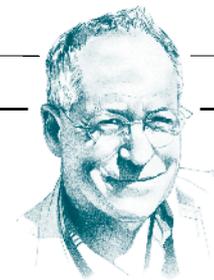
## US retains appeal

Seven out of ten financial services players still consider the US to be attractive for investors, despite the downgrading of the country's credit rating for the first time, a CISI survey shows.

In August, credit ratings agency Standard & Poor's cut the US's standing by one notch - from AAA to AA+ with a negative outlook - following concerns about budget deficits. Yet some respondents to the online survey feel that the downgrade will have a positive effect. One said that it had "given the US the wake-up call that it needed, which will result in more prudent financial decisions".

Among the 30% of respondents who no longer consider the US to be a safe haven, there were concerns about the sustainability of its debt level.

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



# CLAY 'MUDLARK' HARRIS

Back story on Robert Longmuir, Chartered FCSI, of Standard Life Investments

**Robert Longmuir** has rarely been short of a word. Or two. Or more. Born and raised in Troon in Ayrshire, he was such a 'bletherer' (a chatterbox) that one teacher told him that the only job he'd ever be good for was that of a bus driver.

But the art of conversation, as Robert wryly describes it, has turned out to be useful in his financial services career. This is increasingly the case now as he tries to foresee the unforeseeable as a risk and compliance manager at Standard Life Investments.

"I was good academically, without being a genius," Robert says. He went straight from school to TSB, following in the footsteps of his mother, who was a bank manager. In his 13 years with TSB, he rose from tea boy to manager of a branch in Paisley.

In the latter stages, however, he became disenchanted with the pressure to sell more products to customers – a trend at all retail banks, not just TSB.

He moved to Barclays Stockbrokers in Glasgow, starting in 'client relationships', where he fielded complaints from customers before becoming a Senior Operations Manager. In 2000, Barclays Stockbrokers asked

him to establish a risk function for the business. "So began the risk journey," Robert says.

Along the way, he has kept up with qualifications and further learning. At TSB, he passed the Institute of Bankers exams and he is a Chartered Fellow of the CISI. "I've always believed in sharpening the tools in my toolbox and that an old dog can learn new tricks."

**"I've always believed in sharpening the tools in my toolbox"**

And sometimes an old dog must. Barclays Stockbrokers was subsumed into Barclays Wealth, and Robert left in 2008 to take a six-month break, including a six-week road trip in France with his wife and daughter. He'd decided to seek a fresh challenge in the risk and compliance arena, and says that having to look for a new job in his late 40s was "a real reality check".

"I thought I was a tradeable asset, but I had trouble getting through doors for a couple of months," he says. Once

he did, however, he hit it off at his interview – that 'art of conversation' – and was offered a three-month contract at Standard Life Investments before landing a permanent role.

He takes pleasure in developing younger staff, "though maybe I'm passing the fleas on from the old dog". He has instituted 'Fry-up Friday' – a weekly canteen breakfast with his small team, to chat freely under the Chatham House Rule.

The past few years have accelerated the evolution of thinking about, and dealing with, risk. "What initially was monochromatic – a tick-box approach – is now a multicoloured tapestry."

Robert thinks that former US Defence Secretary Donald Rumsfeld's famous (or infamous) saying about "known knowns, known unknowns and unknown unknowns" is a good way to approach risk. He uses the conversational approach in workshops, mobilising people to imagine the unimaginable and then to think about how it could be mitigated. "That can make the difference between a couple of lines in a risk report and a material event."



Robert Longmuir, Chartered FCSI

Risk and Compliance Manager, Standard Life Investments

Do you have a back-office story?

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

Illustration: Luke Wilson

## OBITUARY

### In memory of Jim Herbert MCSI



The CISI's oldest member has died at the age of 100.

Jim Herbert MCSI worked in the City for 74 years, not retiring from his job as a stockbroker until his 89th birthday. In 1926, three years before the Wall Street Crash, he started his career – aged 15 – as an office boy with a stockbroking firm, and became a member of the London Stock Exchange in 1941.

Tony Jenkins MCSI, aged 80, formerly a senior partner of a jobbing firm in the City, said: "I was a friend of Jim for more than 50 years. He was a great man who was widely respected and liked by his fellow Stock Exchange members. He was very professional in the service he gave and was well known for his generosity."

Jim lived in Bristol and leaves six children. Donations in his memory can be made to Cancer Research UK.



### 60-second interview

**Paul Fellerman, Chartered FCSI**, is helping to organise a reunion of those who worked on the London Stock Exchange (LSE) floor at the time of Big Bang, 25 years ago. He is an investment manager and stockbroker with Raymond James Investment Services.



#### Q *What was it like on the LSE floor prior to Big Bang?*

I worked on the floor, ultimately as a member dealer, for 12 years, and it was a thrilling environment in which to work – particularly

during the flotation of big companies such as British Airways and BT. It taught me a great deal, not just about dealing in securities but also about people.

#### Q *What was the key impact of Big Bang on your working life?*

Almost overnight, the trading floor died and business went 'upstairs', becoming screen based. It took me two years to adjust to reading the market from the screens as opposed to from the atmosphere on the floor. It was as if I had lost one of my senses.

#### Q *Was Big Bang a success?*

Unquestionably. Sweeping deregulation opened up the UK equity market, making it more competitive and strengthening the City of London as a financial centre. Numerous changes included a marked increase in the number of market

participants – which led to a vast inflow of capital – the elimination of fixed brokerage commissions and allowing firms to act in a dual capacity (as both a broker and a market maker). Customers have gained from lower costs and better liquidity.

#### Q *What change does the City need to undergo now?*

It needs to remember that we are there to serve our customers and not for the benefit of practitioners. While increased regulation is necessary to try to avoid past mistakes, there is a resulting cost increase that eventually has to be paid by the customer. The right balance must be found.

#### Q *Why are you organising the reunion?*

To relive the amazing camaraderie of the pre-Big Bang days and to raise money for the three worthy charities that have been selected.

The reunion is in aid of charity and will take place in the City on Wednesday 26 October. Find out more by contacting Yasmin Kazi at Mencap, the mental health charity. Email [yasmin.kazi@mencap.org.uk](mailto:yasmin.kazi@mencap.org.uk) or call +44 20 7696 5471.



# Ask the experts...

## GOLD

The price of gold rose above \$1,900 an ounce in early August, and though it has since slipped back slightly, more investors are considering it as part of their portfolio

Because gold is an element of nature, it is often thought to be a commodity like the other metallic elements in the periodic table. However, it is fundamentally different from all commodities for several reasons:

- ◆ Commodities are consumed and, aside from some recycling, disappear after use. Gold does not disappear. All of the gold mined throughout history still exists in its above-ground stock – generally estimated to be about 162,000 metric tonnes.
  - ◆ Commodities have grades of quality and other distinguishing characteristics, such as perishability. But all gold is identical, and does not perish, tarnish or change over time.
  - ◆ Gold has a very high value to volume. For example, it would take a warehouse room full of zinc to equal the \$760,000 value of one 400oz Good Delivery gold bar (those traded by the professional market) measuring approximately 25cm x 8cm x 5cm.
- The pricing of gold is a global process determined by buyers and sellers of the physical metal. Physical gold can be purchased as coins, bars or high-carat jewellery, with online accounts offering private investors an attractive way of purchasing physical metal in relatively small amounts.

### Gold prices

Change in the gold price (%)	30 days	6 months	1 year	5 years	10 years
	-2.87	26.50	39.93	206.80	546.96

Source: [goldprice.org](http://goldprice.org) (as at 22 September 2011)

Investors can gain exposure to gold price movements in a variety of ways, including gold exchange-traded funds (ETFs), other financial products and mining stocks. Following the launch of GLD, the world's largest gold ETF, in 2004, more commodity ETFs have entered the market, trading on a variety of stock exchanges and providing investors with exposure to the gold price. Traders also deal in gold futures contracts on regulated commodity exchanges, the largest of which is the New York Mercantile Exchange Comex Division (now called CME Globex).

The amount of gold in GLD has in fact fallen by 3.8% so far this year. Gold's price has risen some 25% in 2011, not because speculators and traders in gold derivatives are seeking exposure to the gold price, but because buyers are looking for 'safety'. Whether it is a central bank beefing up its country's monetary reserve or an ordinary individual seeking to save for the proverbial rainy day, the gold buyer is choosing

physical metal instead of 'paper-gold' alternatives like ETFs.

They understand that physical gold does not have counterparty risk, which is something many want to avoid with the world's banking and monetary system in such a fragile state. Tidal waves of safety-seeking 'hot money' add volatility to gold's normal price fluctuations, but the long-term trend towards higher gold prices is clear; higher gold prices are likely until the present currency and sovereign debt crises are solved.

When the gold price rises, existing wealth in the form of deferred purchasing power moves from a national currency to gold. Gold owners are the winners from the wealth reshuffling, while holders of national currency are the losers.

See page 16 for more information about ETFs.

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

### QUICK QUIZ

## Test your industry knowledge



Illustration: Cameron Law

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Answers are on page 29.

To order CISI elearning products, contact the client services department on +44 20 7645 0680 or visit [cisi.org](http://cisi.org)

**Q1** What is considered to be the fastest-growing energy source today?

- A) Diesel oil B) Nuclear energy C) Coal D) Natural gas

**Q2** Which of the following countries was the first to establish private funding provisions to ease the strain on the state-funded pay-as-you-go system?

- A) Denmark B) United Kingdom C) Chile D) United States of America

**Q3** Which organisation supervises the sanctions operations of financial firms?

- A) The FSA B) The Bank of England C) HM Treasury D) The Foreign & Commonwealth Office

**Q4** Which ONE of the following is considered to be a significant drawback when investing in emerging markets?

- A) Controls on foreign ownership B) Low correlation of returns C) Inefficient pricing D) Rapid economic growth

# Reality check

The financial markets are putting on the brakes and economists are performing u-turns. Is it time for plan B?

**NERVOUS INVESTORS** have responded to dismal data in the US and Europe with mass stock-market selling, alternating with waves of buying. And, just as at the peak of the financial crisis in 2008-09, stock-picking strategies have been hurled out of the window. Correlation between the movement of the share prices of big US companies, a measure of how closely they track one another, is at its highest level since Black Monday in 1987. Few are discriminating anymore.

■ We have been here before, of course. Last year, it was the fear of sustained deflation in the West that prompted another round of quantitative easing, or emergency bond buying by the US Federal Reserve. Equities rallied strongly in response, to hit cyclical peaks in May.

■ But suggestions of a rebound have proven premature. The difference now is that, even after that extra dose of monetary stimulus, the outlook for global growth has deteriorated.

■ The UK is among the more vulnerable of the big industrialised nations, with manufacturing and service-sector surveys pointing to a sharp deceleration in activity.

■ Indeed, the Paris-based Organisation for Economic Co-operation and Development (OECD) is now predicting that in the second half of this year, the UK will have the lowest growth of any of the major G7 economies apart from Italy. In September, it reversed its view of earlier this year that a 'normalisation' of interest rates would be needed. It is instead urging a significant easing of monetary policy, despite high inflation.

The OECD is not alone, and the case for further monetary loosening has become compelling. ■ The risks to the global economy have grown. Hopes for a swift recovery in the US jobs market have been dashed. The eurozone crisis has intensified; Italy and Spain have been sucked in, forcing the European Central Bank to buy up their debt in an effort to drive down their borrowing costs. This has caused discord among policy makers, and a lasting solution looks further away than ever. Higher oil prices have weighed on recovery prospects, acting as a tax on cash-strapped consumers.

■ With inflation at more than 4%, the deflationary scenario that persuaded the Bank of England to embark on a £200bn quantitative easing programme in 2009 looks remote. The annual rate of inflation, however, could soon start to fall as the effects of those oil price rises work their way through the economy.

■ The Bank has already lowered its medium-term inflation projections and is likely to do so again. Moreover, with the Government having embarked on a rigorous fiscal retrenchment, cutting public spending sharply, it has fallen to the private sector to lead the recovery and provide work for the thousands of public-sector employees losing their jobs. If those surveys are accurate, that looks a forlorn hope.

■ Do not expect consumers to pick up the baton, either. The hit to confidence from those public-sector job losses, especially outside London, means that households are likely to continue rebuilding their savings and hold back on spending. House prices,

“Higher oil prices have weighed on recovery prospects, acting as a tax on cash-strapped consumers”

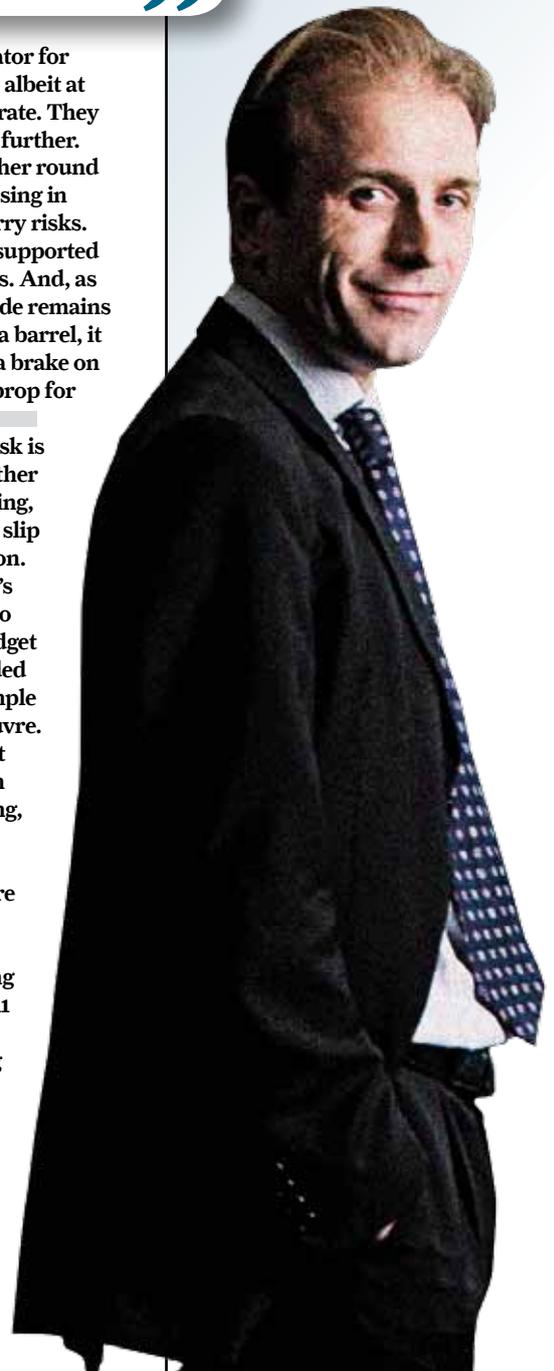
a feel-good indicator for many, are falling, albeit at a modest annual rate. They are likely to slide further.

■ Another round of quantitative easing in Britain would carry risks. Easy money has supported commodity prices. And, as long as Brent crude remains at well over \$100 a barrel, it is likely to act as a brake on growth and as a prop for inflation.

■ But the greater risk is that, without further monetary loosening, the economy will slip back into recession. The Government's tough approach to reining in the budget deficit has provided the Bank with ample room for manoeuvre. Indeed, it may yet be that, even with quantitative easing, stimulative tax cuts are needed.

■ We are not at that point yet. But with the economy flatlining for the rest of 2011 and a recovery next year looking unlikely, the Government would be well advised to dust off its 'plan B'. ■

*Christopher Adams is the Financial Times' markets editor*



# Plus ça change?

The International Monetary Fund, with France's Christine Lagarde as its new Managing Director, takes centre stage in the effort to manage the global financial crisis. But will it adapt to the new economic realities? **Paul Melly** discusses

**FIVE YEARS AGO**, sceptics were speculating about the future relevance of the International Monetary Fund (IMF). Today, it stands almost unchallenged as a source of authority. ■ IMF participation has become essential to the viability of the rescue plans, bailouts and international agreements through which governments around the world are scrambling to restore stability to the global financial system. ■ Peter Dixon, Chief UK Economist at Commerzbank, says that the Fund's role has become "more important than ever" because of the problems in the world financial system. Yet, he says: "It's not clear to me that it has a coherent view as to how we need to restructure the international financial architecture." ■ Dixon feels that the Bank for International Settlements (BIS), the Basel-headquartered intergovernmental body that represents the world's central banks, has been more intellectually forward-thinking by developing the new Basel III banking standards. He believes the Fund should advise governments to phase in their tough recovery plans gradually: "One of the messages I'd like to hear from the IMF is 'don't forget the lessons of the 1930s'." ■ The Fund can command attention – a point highlighted by the global media coverage of the sudden resignation of Managing Director Dominique Strauss-Kahn and the succession race between Agustín Carstens, the Governor of Mexico's central bank, and France's Finance Minister, Christine Lagarde. Strauss-Kahn had been regularly described as one of the most powerful figures in the world economy. ■ Like the World Bank, the Fund was born out of the 1944 Bretton Woods Conference. Led by western powers, this

aimed to establish a new international financial system as World War II drew to a close. Today, those traditionally dominant economies are losing ground. What is the modern role of the IMF in a world in which the emerging powers – China, India and, in particular, Brazil – are increasingly self-confident?

## Complementary roles

The basic division of labour between the IMF and the World Bank, decided at Bretton Woods, has persisted. The former was set up to oversee the international monetary system, whereas the Bank was tasked with financing development and reconstruction in the post-war world. Today, it works mainly in poor and middle-income countries. ■ By the early years of this century, the Fund's role appeared to be shrinking. It had become a leader in poorer developing nations – particularly in Africa and central America – and remained a useful technical reference point for some emerging economies in eastern Europe and central Asia. But growing new powers, such as China, India and Brazil, had less need of IMF support or advice than in the past, while the West seemed comfortably secure. Some therefore speculated that the Fund might be pushed to the worthy margins of world policy action, preoccupied mainly with less-developed countries. ■ All that changed with the outbreak of the global financial crisis in 2008. Thanks partly to the shrewdness of Strauss-Kahn – who understood the scale of the new challenges that the world now faced and had the necessary political skills and contacts – the IMF took up a position as the critical leader of crisis management. ■ Beefed up with

Illustration: Laurence Whiteley for NB Illustration

extra resources granted by member countries responding to Strauss-Kahn's calls for the IMF to become a "safety net", it had the money to head rescue efforts for crumbling economies, while a reputation for stern impartiality met the markets' need for a hard-faced referee of national government policies. If a troubled country's crisis-recovery plan could satisfy the IMF, this was probably enough to calm investors. ■■■■■ What's more, the huge task of rebuilding credible world financial governance enhances the Fund's potential to provide expertise and ideas, believes Nirvikar Singh, Professor of Economics at the University of California, Santa Cruz. He highlights the difficult balancing act that has to be struck when some countries are still fiscally profligate, while others risk overdoing fiscal consolidation. ■■■■■ "My impression is that the analysis carried out by the IMF staff is important in influencing policy-making," he says. "For example, the Fund's change in stance on capital controls seems to have filtered into governments' thinking." ■■■■■ But like Commerzbank's Dixon, Singh views the Fund now as only one of several key sources of expertise. "It is not clear to me that the IMF is the best or most expert body with respect to banking stress tests and regulatory reform. There is the BIS, the FSB [Financial Stability Board] and so on," he says. ■■■■■ "The Fund has been pretty good at

### *If a troubled country's crisis-recovery plan could satisfy the IMF, this was probably enough to calm investors*

picking up on macro issues, but maybe less so on the micro side. I think what they might do for the G20 in creating macro benchmarks for global rebalancing could be useful for the future."

#### **Voice for the new powers**

But if it is to continue in this role as a leader of reform and recovery, the IMF has to be seen as

### *Voting rights in the IMF*

%		Before 2006 reform	As of March 2011	Result of 2010 reform (takes effect in 2012)
Emerging markets and developing countries		39.4	40.5	44.7
G7 advanced economies		45.1	44.3	41.2
Other advanced economies		15.4	15.2	14.1
<b>By country:</b>	US	17.023	16.723	16.479
	Japan	6.108	6	6.138
	China	2.928	3.651	6.071
	Germany	5.968	5.863	5.308
	France	4.929	4.842	4.024
	UK	4.929	4.842	4.024
	India	1.916	1.882	2.629
	Russia	2.734	2.686	2.587
	Brazil	1.402	1.377	2.218

Source: IMF

legitimate. And that's where the questions get more awkward, because the economic weight of the new emerging powers is not well reflected in its internal governing structures. ■■■■■ China, India, Brazil and its Latin American neighbours, and even sub-Saharan Africa, are currently sustaining global growth. The old 'West' has been profoundly weakened. ■■■■■ Yet the President of the World Bank – currently Robert Zoellick – is always American, while the EU monopolises the post of IMF Managing Director. And western countries retain the lion's share of voting weight and executive board membership in both institutions. ■■■■■ A modest rebalancing of the IMF, agreed in 2010, comes into force next year. The 'advanced' economies will still hold more than half of the quota shares – which determine the voting rights detailed in the

table above – with the US having the biggest single stake. ■■■■■ China's quota will be the third-largest, while India and Russia will also be among the top ten shareholders. The quotas of the world's poorest countries will be maintained. Yet these reforms represent a shift of only six percentage points towards the emerging and developing nations. ■■■■■ "This is not adequate to ensure that IMF governance reflects today's world," says Nancy Birdsall, President of the Centre for Global Development, a leading development think tank in Washington, DC. "Basically, the IMF is still run by the transatlantic powers – and that reflects the world of 1946 and not the world of 2011." ■■■■■ The election of yet another European – Lagarde – as the new Fund chief could provide further fuel for such criticisms. But Birdsall plays down the significance of this particular election, noting that during her campaign, the then French Finance Minister worked hard to win the support



of China, Brazil and sub-Saharan Africa.

Moreover, the election happened earlier than expected – because of Strauss-Kahn's sudden resignation – and there were rifts within some potential emerging-world voting blocs. It was no surprise, for example, that the Mexican Carstens failed to secure Brazilian endorsement.

Looking ahead, Birdsall believes that further changes will be needed. She suggests, as an uncontentious first step, that at the

next election of an IMF managing director, the winner should be required to secure not just a majority of the western-dominated weighted votes, but also an absolute majority of all the Fund's 187 member countries.

There seems little doubt that, eventually, the changing balance of the world economy will be better reflected within the IMF, although the day when the US surrenders pole position to China may still be a long way off. Already, Lagarde has created a fourth deputy managing director post, to which she immediately appointed China's Min Zhu. Given that China itself is far from fully transparent in its own financial structures, and is not a plural democratic state, some critics have wondered whether Beijing's growing influence could lead to a shift in the IMF's own commitment to liberal economics and rigorous financial governance. Birdsall thinks not. "If the Chinese become big global players over the next 20 years," she asks, "will they have a sense

of global stewardship? My guess is that they will." Moreover, she points out that it is crucial to ensure that the big emerging countries do remain closely engaged with institutions such as the Fund. The world as a whole, and poor countries in particular, need

multilateral economic institutions that work well and ensure that the interests of all are fairly taken into account.

"We have to keep this system; otherwise, Mali and Honduras, and Malawi and Mongolia, will be

worse off if the US, Brazil and China don't play by the rules." ■

*There seems little doubt that, eventually, the changing balance of the world economy will be better reflected within the IMF*

**The World Bank**

The World Bank comprises the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD uses its AAA status to raise money cheaply on global markets and lend this on to middle-income countries at rates far lower than they could obtain in their own right. The poorest countries are funded through the highly concessional IDA, on terms equivalent to 80% grant finance or through pure grants. The IDA is financed through donor replenishment rounds that take place every three years. Fifty-two countries, including former recipients China and Turkey, contributed to the most recent round, raising \$49.3bn.

**The IMF\***

- Membership: 187 countries
- Headquarters: Washington, DC
- Executive Board: 24 directors representing countries or groups of countries
- Staff: Approximately 2,500 from 160 countries
- Total quotas: \$376bn
- Additional pledged or committed resources: \$600bn
- Loans committed: \$280bn, of which \$215bn have not been drawn
- Biggest borrowers: Greece, Portugal and Ireland
- Biggest precautionary loans: Mexico, Poland and Colombia
- Transparency: In 2009, more than 90% of Article IV – the IMF's process for assessing countries' economic health – and programme-related policy papers were published
- Original aims: Article I of its Articles of Agreement sets out the IMF's main goals:
  - Promote international monetary co-operation
  - Facilitate the expansion and balanced growth of international trade
  - Promote exchange stability
  - Assist in the establishment of a multilateral system of payments
  - Make resources available (with adequate safeguards) to members experiencing difficulties with balance of payments.

\* As at 25 May 2011



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# Synthetic APPEAL

The relationship between 'synthetic' and physical exchange-traded funds may not prove transparent enough for retail investors, reports **Dan Barnes**

**EUROPEAN REGULATORS HAVE** to make a decision about whether retail investors should continue to be allowed to use certain exchange-traded funds (ETFs). These are funds that can be traded on or off exchange like a security and that aim to track a chosen index or benchmark. ETFs provide easy access to a range of stocks that would be difficult or expensive for an investor to track individually, but some – known as 'synthetic' ETFs – use derivatives rather than investment to provide returns, creating unseen risks. The revelation in mid-September that an alleged 'rogue trader' at UBS had run up losses of around £1.3bn, said to stem from large positions taken in an ETF-related deal, has amplified the sense of risk attached to ETFs. Calls for tighter regulation, and even for a ban, have once again been voiced. Physical ETFs, which are estimated to make up 85% of the \$1.25trn assets under management globally, replicate an index by providing an appropriate weighting of the underlying securities. Synthetic ETFs,

worldwide. On 25 March 2010, the Securities and Exchange Commission (SEC), the US market regulator, froze the approval of any new synthetic ETFs, pending a review. "Although funds' use of derivatives is not a new phenomenon, we want to be sure that our regulatory protections keep up with the increasing complexity of these instruments," says Andrew Donohue, Director of the SEC's division of investment management. In November 2010, the Securities and Futures Commission, Hong Kong's regulator, announced that the phrase "This is a synthetic ETF" must prefix a synthetic ETF's name when it is written in promotional materials, while the stock's short name is now tagged with an 'X' on the Hong Kong Stock Exchange. The European Securities and Markets Authority (ESMA), Europe's capital markets regulatory body, is considering the impact that complex ETF structures have on investor protection and financial stability. ESMA estimates that, by the end of 2012, the ETF market will account for

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## *ESMA estimates that by the end of 2012 the ETF market will account for €500bn of assets under management in Europe*

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€500bn of assets under management in Europe. According to asset manager BlackRock, supplier of the iShares range of physical ETFs, 45% of the European ETF market is made up of synthetic ETFs.

meanwhile, remove the legwork needed to invest in all of the stocks. This is through the use of a total-return swap (a swap agreement in which one party makes payments based on a set rate, while the counterparty makes payments based on the return of an underlying asset, usually an equity index, loans, or bonds) to provide the return for the investor. This allows the ETF to track markets in which access or liquidity can be a problem, such as emerging- or frontier-market countries. The cash paid by the investor is invested in a basket of collateral assets held to provide the return in place of investment in the underlying securities. The return on this collateral is received by the swap counterparty, which makes good on the return the investor should receive from the index. However, the potential for the retail investor to accumulate a large exposure to derivatives-based products so soon after the financial crisis in 2008 rang alarm bells with supervisory bodies

Bank of America Merrill Lynch estimates that, at 35%, the iShares brand has the largest market share in Europe; the synthetic ETFs of Lyxor Asset Management at 17.2%, and db x-trackers at 16.3%, take up the second and third positions. In a paper launched on 22 July 2011, ESMA asks for input from market participants into the development of guidelines applicable to Undertakings for Collective Investment in Transferable Securities (UCITS) ETFs (the UCITS regulation allows authorised funds to be traded across EU borders). The paper also asks for ways to mitigate the risk of especially complex products being made available to retail investors.

"What we envisage, in order to ensure that ETF products are tailored to retail investors, is to provide additional disclosure on the functioning of the secondary market and to clarify the collateral and securities-lending practices," says Antonio Barattelli, Senior Officer

for Investment Management at ESMA. “With synthetic ETFs, it may be the case that we will consider restricting the distribution of certain products to retail investors.”

### The risk

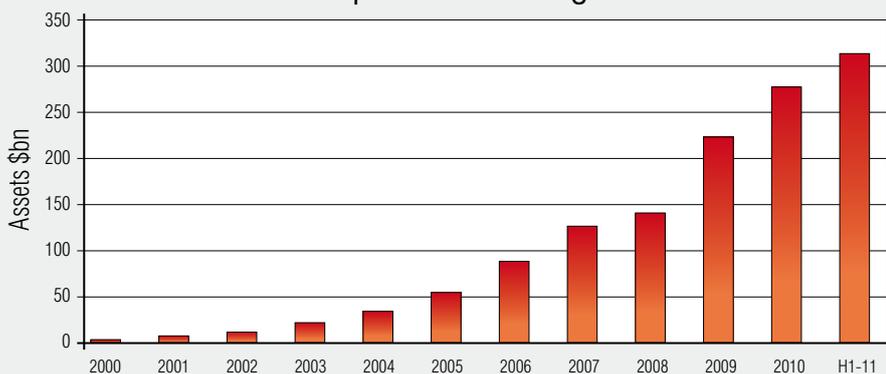
“Plain ‘vanilla’ ETFs broadly present the same risks as any investment fund,” says Richard Stobo, Senior Officer for Investment Management and Rapporteur of the Investment Management Standing Committee at ESMA.

He says that there is nothing inherently more risky in ETFs’ investment strategies, although the widespread use of securities lending to support them could – depending on how they are managed – give rise to tracking error (the difference between the returns the ETF’s benchmark produces and the return to the investor) and counterparty risk. However, this concern is mitigated by the potential returns that an ETF provider could make from securities-lending activity, which Stobo says could offset any tracking error. Eleanor Hope-Bell, Head of Northern Europe Intermediaries Business at State Street Global Advisors, the asset manager that provides the Standard & Poor’s Depository Receipt range of physical ETFs, explains: “I think a large part of the concern about securities lending stems from the post-2008 period, when counterparty risk came to the fore. For synthetic providers, the counterparty exposure is a primary investment-management activity through the swap structure. With physical ETFs, counterparty risk is a secondary investment-management activity through securities lending.” Stobo says that the structure of synthetic ETFs presents the most obvious risks – particularly counterparty risk. In using a total-return swap, the ETF exposes the investor to the risk that the swap provider might fold, leaving them with the collateral they have posted, which may differ significantly in profile from the securities the ETF is tracking. “People don’t necessarily expect to be getting that sort of structure via an ETF. We have rules about the quality of the collateral but, in many cases, it does not reflect the composition of the underlying index. In the case of default selling, the proceeds of the collateral may not cover the loss,” says Stobo. “Therefore, these measures try to address this.”

### The reward

However, stopping investors from accessing potentially rewarding assets poses challenges for regulators. Synthetic ETFs can offer a significantly lower level of tracking error than physical ETFs. Deutsche Bank, which promotes the db x-tracker synthetic ETF and acts as its swap counterparty, found that, in 2009, its tracking error averaged 9.3 basis points compared with the US industry average of 125 basis points (as calculated by broker Morgan Stanley). As the tracking error – comprising the management fees, index rebalancing costs, currency transactions and liquidity of the underlying assets – represents the full costs for the investor, the rules could lumber retail investors with higher access costs than institutional investors. In a research note on non-US listed ETFs issued in July, Jon Maier, an ETF strategist with Bank of America Merrill Lynch, concludes that synthetic ETFs do not present any meaningful risks to investors, because the UCITS rules offer some protection and fund providers have begun to provide more transparency. “We expect increased transparency of collateral baskets as the synthetic ETF market matures and as the retail European market grows and demands more transparency – which is already occurring,” he writes. The FSA has been advocating a more interventionist approach to financial products. Speaking at a press conference in June, CEO Hector Sants said that it will be “actively pushing, through the ESMA process, suggestions that the rules be tightened, particularly in relation to the synthetic ETFs”. Chairman Lord Turner went further, stating that the FSA may conclude that some categories of synthetic ETF “are not appropriate for retail investors”. In Belgium, the Financial Services and Markets Authority has opened a voluntary moratorium on “needlessly complex financial products”, which Stobo says would encompass a number of synthetic ETFs. “The question for the regulator is ‘does the average investor have the ability to do the same level of due diligence as a professional investor?’” says Hope-Bell. “The flip side is whether you remove the retail investor’s ability to diversify their portfolio in the same way that an institutional investor can.” ■

European ETF asset growth



Source: Global ETF Research and Implementation Strategy Team, BlackRock, Bloomberg

Claude Kremer is a man on a mission. He talks to **Maha Khan Phillips** about his new role and priorities as President of the European Fund and Asset Management Association

# Finding a voice

**CLAUDE KREMER HAS** had the good fortune to get his timing right. He couldn't have predicted that the early days of his career would coincide so neatly with developments in the nascent cross-border funds industry. Although not adopted until 1985, the first Undertakings for Collective Investment in Transferable Securities (UCITS) directive was being discussed and shaped as Kremer, who aimed to specialise in finance, began his legal career in 1982.

“I happened to be in the right place at the right time,” he says. “I was able to fully experience the growth of cross-border development in the EU funds industry. It was entirely coincidental, but it turned out to be a good thing.” He says that he recognised the opportunity to be involved in an industry that

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## *“The tsunami of regulation could destabilise the foundation of growth of the asset-management industry”*

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was growing from the ground up and that was full of potential. It was not all smooth sailing, though. There was a huge wave of products being developed out of Luxembourg, and Kremer says that getting to grips with the market required a massive learning curve: “It was a very challenging moment, one that has never really ended. That’s the enriching part of this business. It’s in constant evolution and it’s never boring.” Kremer has been a founding partner in the law firm Arendt & Medernach in Luxembourg and Brussels since 1982, serving as Co-Head of Investment Funds and the pension funds department. When he started, the business was ten-strong. Now, it has more than 400 employees working in several jurisdictions. He and his partners were young and ambitious, and developments in the cross-border funds industry became “an activity that kept us busy, more and more. There was always so much work that there was never time to get unmotivated”. Kremer believes that the best decision he ever made was to remain within a law firm, rather than joining an asset-management or funds company, which was

what many of his colleagues seemed to be doing at the time. “I decided to remain an autonomous professional and had a strong aspiration to build up a legal partnership,” he explains. “Staying in the legal profession was a big decision. I am an independent person, and it makes me less subject to the hierarchies. I can do a number of things because I am a self-employed professional.” Devoting his entire professional career to the fund-management industry, he was Chairman of the Association of the Luxembourg Funds Industry for four years and has already served as Vice President of the European Fund and Asset Management Association (EFAMA), making him the prime candidate to take the Association forward. He became its President this year.

“I am very honoured to be President, and my objective is to build on what has been achieved in the past,” he explains. “My predecessor did a lot of very good things, particularly in the area of long-term savings and increasing the legitimacy of the asset-management industry, and I hope to bring it up to the next level.”

Kremer believes that EFAMA is fully representative of the industry. “We cover the entire value chain in the funds and asset-management industry,” he says. “This gives a true voice to the Association. Having one voice is important and powerful.”

### **Looming regulation**

When he took on the role, Kremer identified five priorities for EFAMA: supporting beneficial regulatory measures; promoting long-term savings; encouraging investor information and education; promoting the UCITS brand in Europe and beyond; and increasing the legitimacy of European fund and asset-management professionals. Of key importance is supporting beneficial regulatory measures. The confluence of regulation being shaped by European policy makers, and legislators all over the world, has been of serious concern. Peter De Croft, Director General of EFAMA, referred to it as a ‘deluge’, and Kremer is equally blunt. “The volume of regulation is problematic,” he says. “There are so many different initiatives at the same time, with little or no impact assessment

### **EFAMA**

EFAMA is the representative association for the European investment management industry. It has 27 member associations and 51 corporate members with roughly €13.5trn in assets under management, managed by 53,000 investment funds, as at the end of 2010.

EFAMA was first founded in 1974, under the name European Federation of Investment Funds and Companies (FEFSI). The organisation changed its articles of constitution and its name in 2004, and welcomed direct corporate membership in addition to its national member associations.

It provides advocacy for its members, engaging with the European Parliament, the European Commission and local regulators. It also provides research, data and analysis, and highlights industry trends, liaising with stakeholders around the world.

Photo: Johanna Ward



### CV snapshot

**2011** – President, European Fund and Asset Management Association

**2005** – Member of the European Commission's Expert Group on Investment Fund Market Efficiency

**2007** – Chairman of the Association of the Luxembourg Fund Industry

**1982** – Founding partner, Arendt & Medernach

**1980** – Master's in Accounting and Finance from the London School of Economics and Political Science

**1979** – Master's in Law and History from the Université Pierre Mendès France de Grenoble

and short response periods. Has the impact of these reforms been sufficiently considered, regarding the competitiveness of investment funds compared with products from banks and insurance companies that don't have the regulation? This is about cumulative effect, and there has been no combined impact-assessment report. This tsunami of regulation could destabilise the foundation of growth of the asset-management industry.”

It is not all bad news, however. EFAMA supports the EU's Packaged Retail Investment Products proposal, which is intended to achieve consistent and effective standards for investor protection across a wide range of investments. This, says Kremer, will level the playing field among different savings products, whether they are offered by fund managers, banks or insurance companies. At the

moment, he suggests, competition is not equal, because structured products issued by banks, and financial products provided by the life-insurance industry, are not covered by the same regulation as those issued by asset-management firms. It is like comparing apples with pears, Kremer says, arguing that banks and insurance offerings must become transparent in terms of the level of fees they are subject to, as well as the level of risks. Bringing everything under one umbrella will achieve this.

### Safe and sound

Another priority is promoting long-term savings. The days when state-sponsored investment pillars alone could provide retirement solutions are over, Kremer suggests. With pensions moving to the top of the EU's agenda in the coming months as a result of the proposed review of the Institutions for Occupational Retirement Provision directive (which lays down rules for the taking-up and pursuit of activities carried out by institutions for occupational retirement provision), Kremer believes that EFAMA has an important role to play. “We support the European Commission because it could be the driver of this initiative,” he says. “We also think a lot needs to be done to better overcome the real barriers to the creation of a uniform European pension regime. We have created a high-level working group with experts who will look into this in more detail and see what can be done to create a harmonised framework.”

Other initiatives include encouraging investor information and education, which mainly involves bringing knowledge to outside players, such as media and distributors, and promoting the UCITS brand in Europe and beyond. Both require Kremer to engage with stakeholders. “The UCITS business has become more and more cross-border, and there is an increasing number of investors from outside Europe,” he says. “So it is important to keep non-European counterparts up to date with developments.”

Educating and empowering investors is equally important, says Kremer. EFAMA aims to improve standards among European fund and asset-management professionals; in May 2012 it launches its Code of External Corporate Governance, broadening the stewardship standards of investment managers as shareholders. He will focus on getting EFAMA's message out to legislators. “EFAMA today has become an extremely powerful body, through which policy makers listen to the views of the industry,” he says. “That is something that has been achieved by my predecessors, but we shouldn't stop there. We need to be aware that EFAMA has a voice, and a view on a number of topics. It is our role to convey that view to policy makers.”

Between a full-time legal career and his role at EFAMA, which involves him travelling all week, Kremer is a very busy man. “There is not an enormous amount of leisure time,” he says. “I'm always delighted to spend time with friends and family. The day has only 24 hours and I do need a bit of sleep!” ■

# Spring tides

Political change across the Middle East raises a series of economic challenges – as well as opportunities – writes **James Gavin**

**THE JUBILANT SCENES** in Tripoli following the rebel forces' ousting of Colonel Muammar Gaddafi from his Tripoli compound in late August captured an important moment in the Middle East's political history. A long-suppressed yearning for democracy finally found its voice in a country led for nearly 42 years by an unelected potentate. But the roots of the upheavals aggregated under the rubric of the 'Arab Spring' lie as much in economic discontent as a desire for political change. The initial protests that broke out in the Tunisian city of Sidi Bouzid in December last year, which led to the standing down of President Zine el-Abidine Ben Ali on 14 January 2011, focused on demand for jobs in a country in which youth unemployment exceeds 40%. The failure to deliver economic benefits to rapidly rising populations has gone hand in hand with the failure to widen political participation and tackle endemic corruption, in countries in which political and economic power has traditionally been the preserve of a well-connected elite. The political turmoil throughout the region has had a variety of effects, with the negative near-term consequences of investor fright clouding some of the longer-term advantages that the strident calls for reform entail.

In those countries in which ageing despots have already been toppled – specifically Egypt, Tunisia and Libya – there remains a risk that the revolutions could quickly sour should living standards, economic growth and employment opportunities fail to improve. It is far from inevitable that new governments will be eager to pick up the baton of economic reform. Restarting the economic reform programme in Egypt, originally steered by the influential former Finance Minister Youssef Boutros Ghali, may prove difficult in the circumstances. Many senior individuals associated with Mubarak's regime now face jail sentences. David Butter, Regional Director of the Middle East and North Africa region at the Economist Intelligence Unit, comments: "In Libya, there's some possibility of picking up a more traditional market-based reform process, whereas in other places such as Egypt, that marketplace reform agenda is discredited because of its political connotations and the way it's been undertaken." Cairo had pioneered public-private

partnerships (PPPs) in a range of sectors via a central PPP unit at the Ministry of Finance. PPPs may now see less progress, with little appetite among the new authorities for pushing privatisation.

## Slow going

Regional stock market indices have failed to absorb any positive economic dynamic emerging from the Arab Spring. Every Middle East and North Africa (MENA) bourse has fallen in 2011, with the Egypt EG30 index down in early September by a colossal 34% on the start of the year. Other indicators suggest a sharp slowdown in economic activity. MENA capital markets saw \$398.9m raised in initial public offerings in the first six months of 2011, compared with \$1.2bn in the same period of 2010 – a decline of 67%, according to figures from Ernst & Young. The negative impacts have also been felt by global businesses that are active in the Middle East as investors and trading partners. Research from Grant Thornton International reveals that 22% of privately owned businesses globally have felt a negative impact from the Arab Spring on their financial results and sales. "Businesses over the first half of this year have had a number of issues to deal with as a result of the Arab Spring," says Edward Nusbaum, CEO of Grant Thornton International. "Fuel prices have increased, pushing up operational and production costs. There is also the direct effect on order books that businesses will have felt as supply routes between these countries are

disrupted, with governments in the region focusing on political issues rather than trade."

For banks active in the Gulf region – where the demand for project financing has traditionally been robust – the delaying of a number of major projects in

that area has eroded opportunities for commercial loan packages.

Foreign investors also recognise the potential for positive change emerging from the political upheavals. The Grant Thornton survey found that, in the second quarter of 2011, only 10% of global businesses were less likely to do business in the MENA region in future. "In fact," says Nusbaum, "90% said that, over the long term, they still see the region as important to their success and will continue to make investments here." The negative impact of the Arab Spring has not been uniform. UK firms that export to the Middle East appear to have prospered. According to figures from the Middle East Association (MEA), a trade body for UK firms active in the region, British visible exports to the MENA region increased in the first half of the year. MEA attributes this to rising spending by those countries that are not directly affected by the protests. "If you look at bald trade statistics, our visible exports to the MENA region in the January–June period were up 9% compared with the same period in 2010," says Charles Hollis,

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*The initial protests that broke out in Tunisia focused on demand for jobs in a country in which youth unemployment exceeds 40%*

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Director General of the MEA. Though exports to Libya declined by three-quarters, they more than doubled to Algeria, he says: "The United Arab Emirates is up by 25% and Morocco by 50%. So it's a very mixed picture." There are certainly grounds to suggest that the flowering of Arab democracy could prove to be good for business, as governments focus on some of the economic drivers behind the regional tumult. "The Arab Spring has yielded a new way of thinking among people in the region. They are now demanding better standards of living and greater employment opportunities," says Yazan Abdeen, a Dubai-based manager of ING's MENA Equities fund. "This has had the direct effect of expediting the current spending programmes of wealthier countries in the region." Not all Middle Eastern countries face the same destiny as Egypt, Libya and Tunisia, and for these more stable states, the impetus will be to ramp up spending. In March of this year, Saudi Arabia's King Abdullah Bin Abdul-Aziz announced, by royal decree, two major supplementary spending packages with a total value of \$130bn, of which half would be devoted to public housing. These spending hikes could yield significant business opportunities for firms that boast expertise in a range of sectors. Gas-rich Qatar, which in September announced a doubling of public-sector salaries, is looking to invest in the expansion of its rail system as a means of delivering the fruits of wealth to its citizens. In March, the Gulf Co-operation Council provided Oman and Bahrain with \$10bn each over a decade to meet demands for improved living conditions. These were the two Gulf states most affected by the Arab Spring, with a series of street protests that, in Bahrain's case, turned violent. Despite slowdowns in some projects this year, Abdeen predicts that this will change as governments respond to the need to revitalise their economies and head off street-level protests. "Further cashflow injections will have a multiplier effect on the economy," he says. "The projects that would usually have taken five years to be executed could now be completed within a year. "Although it's easy to look at the region and see it as a political nightmare, governments are making their countries more investable," he continues. "And that's not to make us happy, but to make the people happy. For the first time, there's an alignment of interest between the investment community and the people." Differentiation is the watchword. Nusbaum says: "Governments have a strong incentive to handle reforms in an organised way that keeps the masses in jobs and well fed. Some countries, such as Saudi Arabia, Qatar and Iraq, have significant oil and gas reserves at their disposal to provide the cash. Others, such as Egypt and Tunisia, don't have that benefit, and therefore managing the situation is much more difficult."

### Combating corruption

While it is relatively easy for the hydrocarbon-rich Gulf states to throw cash at social problems, fiscal handouts alone won't solve the issues. Middle Eastern governments face a far greater challenge in translating the anger at high unemployment and corruption into lasting changes in economic policy. Governments in the MENA region have yet to refashion themselves into effective regulators that are able to combat corruption and inefficiency. Throughout the region, the public sector dominates the economy, smothering private-sector activity. And as long as popular protest continues, many governments remain distinctly wary of engaging in some of the more painful policy prescriptions that are the corollary of substantive economic reform. The International Monetary Fund and the World Bank have long urged Arab governments to promote market-oriented reforms, but with little material reward. Extensive subsidy regimes – largely targeted at fuel and food commodities – hide the real cost from the consumer and lead to over-consumption. These subsidies absorb a large amount of state resources and 'crowd out' expenditures in more productive

areas of the economy such as infrastructure. Aside from Iran, which has slashed subsidies on gasoline over the past year, few MENA governments are prepared to hurt the consumer in the pocket through reductions in subsidies. Indeed, many governments have gone in the opposite direction. In Morocco, amid rising street demonstrations, the Government announced in February of this year an injection of some \$2bn in subsidies to curb price hikes for staple commodities. Middle Eastern governments will not be able to turn back the clock by raiding state coffers. The only long-term solution to the social roots of the Arab Spring will be to open up economies to investment, creating more dynamic private sectors, diversifying away from oil dependence and slashing bloated state sectors. For the new governments that are forming in post-revolutionary states, and the existing regimes that are able to cling on to power, that will be the hard part. ■

## *Throughout the region, the public sector dominates the economy, smothering private-sector activity*

### *Questions of faith and tribe*

Tribal influences played a significant role throughout the Arab Spring, both as fomenters of change and as sources of support for embattled leaderships. The BBC's recent *Life of Mohammed* television documentary underscored the pertinence of tribal relationships in the Muslim world for centuries past.

Although smartphones, Facebook and Twitter have emerged as the conduits for organised street protest, it is the old-world traditions of faith and clan that could ultimately determine the trajectory of change.

Almost all the uprisings in 2011 have brought with them sectarian and ethnic tensions. In Syria, whose regime is dominated at its upper levels by members of the minority Shia Alawite branch of Islam, President Bashar al-Asad has sought to exploit divisions within Syria's society.

Asad's support base is heavily entrenched among both Alawite Syrians and the largely Sunni merchant class that dominates business life in the main cities of Damascus and Aleppo. Christian Syrians, accounting for almost 10% of the population, remain supportive of the Asad regime. But the Syrian leadership faces opposition from an Islamist-influenced opposition movement that is strongest in the northern cities of Homs and Hama, as well as from Kurds in the north east. If the widespread protests succeed in overthrowing the regime, ethnic/sectarian relations could pit Syrians against one another.

In Egypt, meanwhile, a core of opposition to President Hosni Mubarak came from the country's Islamist movement, the Muslim Brotherhood. Long suppressed by the authorities, it has strong grassroots appeal, and tensions between the secular protestors and the Muslim Brotherhood have come to the fore in the power vacuum in Cairo ahead of elections set for November.

Islamists have also long been a pressure point in Libya, creating the potential for problems in the post-Gaddafi era. Abdel Hakim Belhadj, the Transitional National Council's new Security Commander in Tripoli, was arrested in Malaysia at the behest of western security agencies as a suspected ally of Al-Qaeda.

The danger is that once the common purpose that brings diverse communities together starts to erode, these divisions will once more rise to the surface and create further uncertainty at a time when unity and stability are essential.

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# TRUSTING

# *tradition*

Investment trusts have been around for more than 100 years, but remain as relevant as ever, says **Simon Cordery**, Chartered FCSI



**POOLING CAPITAL WITH** like-minded investors to gain advantages diversification, reduced costs and streamlined administration perhaps seems rather a radical concept. In fact, a large proportion of most individuals' investments are made in exactly this way, and this has been the case for quite a long time.

The newest incarnation of this approach is the exchange-traded fund, or ETF. It can trace its roots back, through a variety of 'united' funds such as open-ended investment companies (OEICs), unit trusts and life and pension funds, to the latter half of the 19th century and the launch of the first 'collective investment', the Foreign & Colonial Investment Trust, in 1868. Today, the industry has assets under management of more than £97bn across a wide variety of managers and asset classes (Association of Investment Companies, data as at 31 July 2011).

### Long-term gain

Investment trusts may be the oldest form of collective investment, but they remain an evergreen investment vehicle for the modern age. They offer investors access to many kinds of asset class, including equities, property, private equity and hedge funds. In an era of increased regulation for the investment industry, investment trusts have had to deal with issues such as the impact of the Alternative Investment Fund Managers Directive and, most recently, the Retail Distribution Review. If, as is widely reported, commission-based sales of funds become a thing of the past, investment trusts should find themselves on a more level playing

## *Investment trusts may be the oldest form of collective investment, but they remain an evergreen investment vehicle for the modern age*

field when it comes to financial advisers recommending funds to their clients. While this will not happen 'overnight', any increase in demand for investment trust shares should help the supply and demand equation and have some impact on discounts (discussed in more detail below). Investment trusts arguably have certain attributes that make them stand out from the open-ended funds that dominate the market today. They are Stock Exchange-listed companies and, as such, have a more-or-less static share capital. This means that the fund manager has a stable pool of money to invest and does not have to deal with cash flowing into, or out of, the portfolio. Because of this, they can take a longer-term approach to investing and can hold less liquid (or, in the case of private equity or property, illiquid) investments. Any costs levied by a fund may be deemed to be a tax on performance, so keeping these to a

minimum is a key objective. Investment trusts can be bought with only the 0.5% Government stamp duty to pay, rather than the upfront fees levied by most open-ended funds. In addition, research shows that annual expenses for two-thirds of investment trusts are below the open-ended 'industry standard' of 1.5%, with a third of trusts having total expense ratios (TERs) – a measure of the total costs associated with managing and operating a fund – of below 1% (Association of Investment Companies, May 2011). These charges are comparable with those of some index-tracking investments, but can give investors access to the benefits of active management and diversification. Many of the lowest-cost investment trusts, with TERs of about 0.5%, offer access to a global spread of companies in a wide range of sectors, making them a useful 'core' holding in a portfolio.

The above points have an impact on long-term performance: as a study by investment trust experts Collins Stewart (*What Price Best Advice?*, February 2011) showed last year, closed-ended funds have tended to outperform their open-ended rivals. In eight of nine key areas (global growth; global growth and income; UK income growth; UK growth; UK smaller companies; Europe; US; Asia Pacific excluding Japan; and emerging markets), closed-ended funds outperformed over ten years to the end of December 2010, with UK smaller companies the only area in which open-ended funds did better. This is based on past performance, of course, and there have been times when open-ended funds will have done better, but it is certainly not an argument for dismissing investment trusts out of hand.

As bank interest rates remain stubbornly low and inflation worryingly high, investment trusts can offer a further advantage in the shape of revenue reserves. While not all trusts have a reserve, many of the longer-established ones have benefited from their ability to hold back some of their income. This is in contrast with open-ended funds, which are obliged to pay out all income received to investors. Those trusts with revenue reserves were able to ride out, for instance, the big drop in income from the UK equity market caused by last year's suspension of the BP dividend.

Being structured as listed companies, investment trusts have a couple of aspects that need to be understood and appreciated in order to assess their suitability as an investment for a client. These are, firstly, the use of gearing and, secondly, the possible divergence between share prices and net asset values, leading to shares trading at a discount or a premium to the value of the underlying assets. Having a good understanding of these features is key to removing one objection that comes up from time to time: that investment trusts are complex, and therefore risky, investments. Gearing – borrowing to invest – will boost returns in a rising market, as the value of assets bought with borrowed money goes up relative to the fixed costs of repaying the borrowing. Of course, the reverse

is true in a falling market, though manager skill and the retention of some flexibility at the portfolio level should ensure that few trusts remain fully geared in a prolonged downturn. Discounts, too, can be seen as an opportunity as much as a threat. If you can pick up assets worth £1 for 90p, you will enhance the yield on your investment (assuming it generates an income) and will face

## *Many of the longer-established trusts have benefited from their ability to hold back some of their income*

a capital problem only if the discount is wider when you come to sell. In fact, notwithstanding some less liquid sectors such as property, where discounts may become quite wide in unfavourable market conditions, the long-term trend of discounts is downwards, due in part to the widespread adoption of discount-control mechanisms. Many trust boards have introduced discount-control mechanisms, with the aim of reducing the level and volatility of a trust's share price discount relative to its net asset value. Clearly, redressing the balance of supply and demand for a trust's shares to ensure that a discount does not become unduly large is one way in which a board can add to shareholder value and provide a seller – in 'normal' market conditions, at least – with an exit should a 'natural buyer' be absent. Also, being a company, investment trust shareholders' interests are looked after by an independent board of non-executive directors. This body ensures that the trust is run in accordance with its Articles of Association and that the managers are doing what they say they are doing. The board can, and will, remove the manager if they are not doing their job properly, which means acting in the interest of the investor and adhering to best practices of corporate governance.

### On solid ground

So, after more than 140 years, investment trusts have proven their worth through a couple of world wars, a depression, several recessions and a banking crisis or two. The closed-ended structure offers a number of attributes that can lead to a solid, cost-effective investment vehicle for a long-term investor. I am sure that, whatever the coming years hold in store for the markets, this venerable investment vehicle will continue to survive and thrive. ■

**Simon Cordery**  
Chartered FSCI, is Director, Head  
of Investor Relations for investment  
trusts at F&C Asset Management



# Speak up?

The Grey Matters dilemmas have generally focused on the actions of individuals in a situation specific to them. But there may be occasions when you are confronted with a much broader issue

**A NATIONAL NEWSPAPER** ran a story a few weeks ago with the front-page headline “UK banks fund deadly cluster-bomb industry”. The article names a number of the UK’s leading banks as having provided funding, directly or indirectly, to the makers of a type of weapon whose use the UK Government believes should be banned. While legislation exists to enforce this, it is only by way of restriction on providing assistance to the direct producer. Since these munitions are produced mainly by specialist subsidiaries of industrial conglomerates, there is no restriction on funding their parent company – something that a number of UK banks do. ■■■■■

At the same time as this news story has been running, the CISI is involved in the Lord Mayor’s ‘Restoring Trust in the City’ initiative. As part of this venture, the Institute hosted a meeting of the leading professional bodies that represent members employed in the financial services industry. One of the recommended courses of action that emerged was to encourage firms to provide a way for members of staff to air their concerns about practices or policies of the firm that made them uncomfortable. This would also be a way of raising concerns about some activities of the firm that they consider to be unethical. ■■■■■ There is no direct connection between the news story quoted above and the recommendation of the provision of ‘speak-up’ facilities. But

it does give an example of a situation in which members of staff might have concerns about the activities their firm is prepared to undertake and what means, if any, exist for staff to make their views known.

## **Lines of communication**

A fairly trite alternative response might be that if you don’t like what you are being asked to do, you should seek alternative employment. However, many people work in jobs in which they do not have the luxury of being able to leave simply because they don’t like what they are being asked to do. (One might, of course, question their motivation

if that were their view on a daily basis.) But situations of the type illustrated above remain perfectly real dilemmas for many people, and the fact that ‘speak-up’ lines are being suggested as a necessary facility is an indication of the expectations of staff and legislators today. ■■■■■

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***The reality is that large firms with public reputations to protect occasionally make decisions that they later come to regret***

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At the same time, it raises a question about the extent to which senior executives are, or perhaps should be, mindful of the views of their staff and how much regard they should have for them, particularly when a decision has been taken at executive level. The reality is that firms, particularly large ones with public reputations to protect, occasionally make decisions that they later come to regret. This is usually because what had been considered and discounted



as unlikely to happen then does so. Or it may be because a metaphorical small thread is tugged and tugged until the garment begins to unravel. A good example of this is the Shell oil company's increasingly difficult and public response when, in the early 1990s, it planned to dispose of its Brent Spar oil storage platform by sinking it in the Atlantic, which it justified as the most environmentally sound option. After years of tendentious arguments from opposing sides, the platform was ultimately dismantled and reused. That was probably more expensive in balance-sheet terms, but must have been better in environmental, and certainly reputational, terms. Was this option considered at the outset? So where might this leave the proposal for the promotion of 'speak-up' telephone lines? The first point one should make is that the purpose of such an initiative should not be confused with that of 'whistleblowing' lines, whose fundamental purpose is to report wrongdoing. 'Speak-up' lines are intended to be a channel of communication between staff and management, putting in place a formal means for members of staff not only to ask for advice but also to convey their views about their firms' policies without them being 'personalised'. The main reason why people keep quiet about things they don't like, rather than making their views known, is their fear of retaliatory action.

#### **Bypassing the hierarchy**

What tends to hinder the acceptance of the principle of the 'speak-up' line is the fact that business generally operates with a hierarchical structure and does not like systems that bypass that. Even firms with 'whistleblowing' lines frequently say that the first port of call should be the manager. However, this approach is unlikely to work if the manager does not share the convictions of their colleague to the extent that he or she is prepared to escalate the concern to an appropriate level. So the 'speak-up' line will have to bypass the hierarchical structure. It will need to go to someone who is senior enough and considered to be sufficiently impartial to assure users that they will be listened to and heard objectively. Most importantly, the user must feel confident that they will not be subject to any form of retaliatory action. If users have the impression that the controller of the line is simply a mouthpiece for management and never responds with anything other than the party line, then staff cynicism would be well deserved. This is why most large firms use an external provider that passes the message to a designated person. These calls rarely use names: feedback is provided by means of a secure password. Providing a means to 'speak up' is indicative of an open culture and is a valuable way of preventing a reputation hit. This is why such lines are increasingly available and merit consideration; surely early warning of possible public disquiet is well worth having? ■

### **Are 'speak-up' lines a good idea?**

Please email your views to Richard Mitchell at [richard.mitchell@cisi.org](mailto:richard.mitchell@cisi.org)

# Need to read

The latest publications and study aids supporting CISI qualifications

## TWO NEW WORKBOOK EDITIONS



### Investment Advice Diploma (level 4)

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

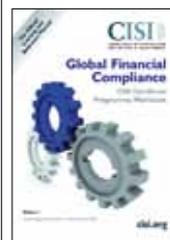
- Securities (covering exams from 31 December 2011 to 30 December 2012)
- Derivatives (covering exams from 31 December 2011 to 30 December 2012).

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

**Price: £75 each**



## NEW WORKBOOK



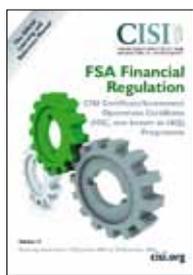
### Global Financial Compliance

The objective of the Global Financial Compliance qualification is to ensure that candidates have an introduction to international compliance. The Global Financial Compliance workbook (covering exams from 1 December 2011) 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



### Principles of Financial Regulation

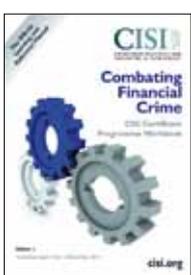
The Principles of Financial Regulation unit is part of both the Investment Operations Certificate, also known as the Investment Administration Qualification, and the Certificate

programme. Its aim is to ensure that candidates have an understanding of the regulations and legislation that underpin the financial markets and the conduct of investment business more appropriate to the wholesale sector. A new edition of the Principles of Financial Regulation workbook (valid for exams from 21 November 2011) covers:

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

**Price: £75**

## NEW WORKBOOK



### Combating Financial Crime

The objective of this qualification is to ensure that candidates have a basic knowledge of the regulations and practices related to combating financial

crime. The Combating Financial Crime workbook (covering exams from 1 December 2011) is due out in September and will cover:

- 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 EDITION



### FSA Financial Regulation

The aim of this unit is to ensure that candidates have an understanding of the regulations and legislation that underpin the financial markets and the conduct of investment business. A new edition of

the FSA Financial Regulation workbook (covering exams from 13 December 2011 to 30 November 2012) covers:

- the regulatory environment
- the Financial Services and Markets Act 2000
- associated legislation and regulation
- the FSA's Conduct of Business Sourcebook/client assets
- complaints and redress.

**Price: £75**

## ONLINE



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The CISI's Professional Refresher elearning tool enables you to remain up to date with regulatory issues and changes, maintain compliance and

demonstrate continuing learning. The product now consists of more than 35 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 £150 per user. Visit [cisi.org/refresher](http://cisi.org/refresher) for further information.**

## External specialists

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

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

The CISI would particularly welcome applications from specialists to help with developing its workbooks for the Financial Markets, Certificate in Private Client Investment Advice & Management and Private Client Advice exams.

To register your interest, please contact Iain Worman on +44 20 7645 0609 or download the application form available via: [cisi.org/externalspecialists](http://cisi.org/externalspecialists)

# Diary

Events to attend over the coming months



## CISI annual dinner



### Thursday 24 November

Plaisterers' Hall, 1 London Wall, London, EC2  
The Institute's premier social event of the year, the annual dinner will feature as guest speaker Alistair McGowan, comedy impressionist and actor. For a booking form, please email Hannah Steele at [hannah.steele@cisi.org](mailto:hannah.steele@cisi.org)

## Professional courses

Venue: London unless otherwise stated

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

**13/14 OCTOBER Understanding Regulation & Compliance £900.00**

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

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

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

**27 OCTOBER Mastering Communications Skills in Financial Services £500.00**

**1 NOVEMBER Understanding Pensions and Retirement Planning\* £500.00**

**9 NOVEMBER Investment Principles & Risk (PCIAM)\* (Manchester) £300.00**

**9 NOVEMBER Investment Principles & Risk (IAC)\* (Manchester) £500.00**

**9/10 NOVEMBER Investment Principles & Risk (LSE)\* (Manchester) £900.00**

**16 NOVEMBER Training Competence and Managing Expertise in a Regulated Environment £500.00**

**23 NOVEMBER Anti-Money Laundering & Terrorist Financing Workshop £500.00**

**29 NOVEMBER Securities\* £500.00**

**1 DECEMBER Introduction to Financial Markets £500.00**

**6 DECEMBER Securities\* (Birmingham) £500.00**

**6 DECEMBER Investment Principles & Risk (PCIAM)\* £300.00**

**6 DECEMBER Investment Principles & Risk (IAC)\* £500.00**

**6/7 DECEMBER Investment Principles & Risk (LSE)\* £900.00**

**13 DECEMBER Operational Risk: Taking it to the Next Level £500.00**

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

## London events

### 17 OCTOBER Impact Investments: An Emerging Asset Class?

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

### 20 OCTOBER Personal Taxation (1)

7city Learning, 4 Chiswell Street, EC1



### 25 OCTOBER Founders' Series: Terry Smith,

Chief Executive, Fundsmith

Willis Ltd, 51 Lime Street, EC3

### 26 OCTOBER Investment Trusts and the Pursuit of Global Income – Future Prospects

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

### 27 OCTOBER What Makes a Good Regulator?

Gresham College, Barnard's Inn Hall, Holborn, EC1

### 1 NOVEMBER An Update on the Latest Moves Towards Interoperability

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

### 4 NOVEMBER Long Finance Autumn Event 2011: Bubble Trouble – Pop Goes Sustainability

HSBC, 8 Canada Square, Canary Wharf, E14

### 7 NOVEMBER Dutch Courage: Does Britain Have Anything to Learn from the Provision of Pensions in the Netherlands?

CISI, 8 Eastcheap, EC3

### 8 NOVEMBER Personal Taxation (2)

7city Learning, 4 Chiswell Street, EC1

### 14 NOVEMBER State Benefits – Understanding Your Entitlements

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



### 14 NOVEMBER Sir Thomas Gresham Docklands Lecture:

Andy Haldane, Bank of England

Four Seasons Hotel, 46 Westferry Circus, Canary Wharf, E14

### 15 NOVEMBER What Behavioural Finance Can Teach Us About Investment Research

Willis Ltd, 51 Lime Street, EC3

### 21 NOVEMBER The Future of the EU and Global Markets

Gresham College, Barnard's Inn Hall, Holborn, EC1

### 22 NOVEMBER Update on the Takeover Code

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

### 30 NOVEMBER European Markets Infrastructure Regulation – Refresher and Update

SWIFT, The Corn Exchange, 55 Mark Lane, EC3

## To book:

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



## CONFERENCE SPONSORSHIP

If you would like to raise your profile and be associated with the excellence and integrity promoted by the CISI, you might like to consider taking up one of the sponsorship or exhibition opportunities at an Institute conference.

For more information, please contact Hannah Steele on +44 20 7645 0648 or email [hannah.steele@cisi.org](mailto:hannah.steele@cisi.org)

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## To book:

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## Regional events

### 12 OCTOBER RDR Seminar

Jersey  
Radisson Blu Waterfront Hotel, Rue de L'Etou, St Helier, Jersey

### 14 OCTOBER Annual Dinner

Isle of Man  
Mount Murray Hotel & Country Club, Mount Murray Road, Santon  
(Guest speaker: Mrs Money Penny, *Financial Times* columnist)

### 20 OCTOBER The Bond Market in the Current Environment

Birmingham & West Midlands  
Harris Allday, 33 Great Charles Street, Birmingham

### 1 NOVEMBER Football Tournament

Yorkshire  
Leeds Powerleague, Wellington Bridge Street, Leeds

### 1 NOVEMBER Integrity at Work

Yorkshire  
Sheffield Hallam University, Western Bank, Sheffield

### 8 NOVEMBER Risk

Republic of Ireland  
The Institute of Bankers, 1 North Wall Quay, Dublin

### 17 NOVEMBER Annual Dinner

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

### 18 NOVEMBER Annual Dinner

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

#### To book:

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#### ASIA

# Singapore congress



Robert Barnes,  
Chartered FCSI

CISI members can attend this year's World Exchange Congress Asia at a 25% discount.

The event, which will take place at the Marina Mandarin Hotel in Singapore on 18-19 October, will consider the key challenges facing Asian exchanges and trading venues. It will explore ideas such as a passport to allow locally approved products to be distributed globally and 24-hour trading.

The event will be chaired by UBS MTF CEO Robert Barnes, Chartered FCSI and

Non-Executive Director of the CISI.

He said: "This watershed event will gather the industry's thought leaders in Asia to discuss the future of the evolving exchange landscape on a global basis."

Attending the event will count as CPD hours for CISI members.

In order to secure the 25% discount, CISI members must give their Institute membership number and state the code 161629M when they register. Non-members can receive a 17% discount by quoting the code 161629NM when they register.

**WorldExchange**  
CONGRESS ASIA 2011

 For further information, visit [terrapinn.com/2011/worldexchangecongressasia/programme.stm](http://terrapinn.com/2011/worldexchangecongressasia/programme.stm)

 For assistance with conference registration, contact Mathew Oriel at [matheworiel@terrapinn.com](mailto:matheworiel@terrapinn.com)

## Professional interest forums

### Operations forum



Frank Reardon,  
Chartered FCSI

As a CISI member, you can sign up for free to the mailing list of the Institute's operations professional interest forum (PIF). Forum members meet to network over lunch in London and discuss topical issues in a confidential setting while earning CPD.

Recent meetings have covered topics including 'recruiting, training and retaining operations staff' and 'consolidation of multilateral trading facilities and trading houses'. Members' comments from these events included "good anecdotal material, simply presented and understandable" and "excellent presentations from all the speakers".

#### 5 October

The forum will hold a debate in Canary Wharf for and against outsourcing. Making the case for outsourcing will be Matt Aylward, Chartered MCSI, Director of Operations at Brooks MacDonald; an opposing view will be given by James Gordon FCSI, Director, Investment Management Settlement Operations, Smith & Williamson Investment Management.

#### 24 November

The forum will meet in the City to consider the subject of operational risk. A presentation will be given by forum Chairman Frank Reardon, Chartered FCSI, Head of Investment Administration at JM Finn. Frank will discuss key points for firms including:

- Can your operating system cope when business volumes are particularly high?
- Does your system crash and, if so, what are the disaster recovery processes in place?
- Best execution
- Sending information, including contract notes and transaction reports, to the FSA.

To join the 360 members already signed up to the mailing list of the operations PIF or to book a place at these free events, please email [operationsforum@cisi.org](mailto:operationsforum@cisi.org)

There are currently seven CISI PIFs, which cover the areas of compliance, corporate finance, Islamic finance, IT, operations, risk and wealth management. Each PIF meets at least once a quarter.

Fellows, Members, Associates and Affiliate members 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](http://cisi.org/pifs)



### Missed a CPD event?

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An exclusive free member benefit

## Membership admissions and upgrades

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<b>Amlin</b>	Mateusz Monach	Neil Murray	Jeremy Dufton
Mark Rowe	Aun Raza	Lauren Osborne	<b>University of Ulster</b>
<b>Arbuthnot Latham</b>	<b>UBS</b>	<b>deVere</b>	Conor Quinn
Daniel Williams	Rupert Heathcote-Drury	Benjamin Crabb	<b>Westhouse Securities</b>
<b>Ardent</b>	University of Ulster	<b>Dubai International Financial Centre</b>	Gemma Stanway
Gary O'Brien	Paul Stewart	Shamlan Alsawalehi	<b>Others</b>
<b>Arunvill Capital</b>	<b>Williams de Broë</b>	<b>Equitrade</b>	Jamal Saeed Zeed Abdel Jabbar
Anna Sweeting	Joanne Hayman	Amarjet Snehi	Femi Akinboye
<b>Bank of America Merrill Lynch</b>	<b>Zurich Bank</b>	<b>Family Investments</b>	Barbara Chapman
Gillian Elliott	Eric Yarker	Amy Brown	Simon Forsyth
Adam Gray	<b>Others</b>	Sara Maye	Constantinos Sanoudos
<b>Barclays</b>	Michael Adutwum	Rowan Searle	Fathima Shareef
Daniel Forbes-Ford	Prosper Akati	<b>Friends Provident</b>	Richard Stammers
<b>Blankstone Sington</b>	Otaloghene Efeurhobo	Peter Press	Nigel Thompson
Andrew Murphy	Ioannis Lionis	<b>Gibraltar Asset Management</b>	
<b>Boston Financial Services</b>	John Obeahon	Isabel M Duque Castilla	<b>Chartered FCSI</b>
Simon Duggan	Atul Seth	<b>Goldman Sachs</b>	<b>Brewin Dolphin</b>
<b>Brennocks</b>		Justine Rowe	William Westwood
Paul Brennock	<b>ACSI</b>	<b>HB Markets</b>	<b>Brooks Macdonald</b>
<b>Brooks Macdonald</b>	<b>ABN AMRO</b>	Antony Walsh	James Grayson
Gareth Howlett	Ricky Ferbrache	<b>Henyp</b>	<b>Charles Stanley</b>
<b>Cavendish Trust</b>	<b>ADM Investor Services</b>	Mark Gemma	Louise Beckensall
Christina Rawlinson	Tracy Hetherington	<b>HSBC</b>	David Hill
<b>Chadwicks</b>	<b>Ahalada Rao</b>	Leslie Clark	James Shotter
Richard Ross	Ahalada Vummenthala	<b>Interactive Investor Trading</b>	<b>HSBC</b>
<b>Chantrey Vellacott</b>	<b>Allenbridge</b>	Michael McCudden	Henry Donne
Timothy Stevens	Michael Burgess	<b>Investec</b>	<b>Investec</b>
<b>Cheviot</b>	<b>Anderson Strathern</b>	Annabel Ayers	Simon Tabb
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Brian Selvanayagam	Mike McGuire	Ayman Al Daouk	<b>Kleinwort Benson</b>
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Mark Yellos	Michael Ast	<b>Kleinwort Benson</b>	<b>Portfolio Economics</b>
<b>Coventry Assurance Society</b>	<b>AXA</b>	Mark Burnyeat	Samuel Fadare
Terence Webb	Andreas Nicolaou	Natalie Merrens	<b>Quilter</b>
<b>Deutsche Bank</b>	<b>Bank of New York</b>	Andrew Thompson	Richard Firth
Braham Shore	Jamie Riley	<b>Lloyd's of London</b>	<b>Redmayne Bentley</b>
<b>Ernst &amp; Young</b>	<b>Barclays Wealth</b>	Christopher Loft	Timothy Whitehead
Davide Artigiani	Derek Mackie	Tracy Nocerino	<b>Seven Investment Management</b>
<b>HSBC</b>	<b>Baring</b>	<b>Mirabaud</b>	Sophie Kilvert
Robert Ball	Ben Gillett	Sabina Mills	<b>The Pensions Trust</b>
Anna Blomqvist	<b>Berry</b>	<b>MTN</b>	David Palmer
Patrick Costello	Stephen Browning	Adedeji Adeola	<b>Others</b>
Kathryn De Oliveira	David Matthews	<b>NM Rothschild</b>	Sylvia Bowen
Dominic Lane	<b>Bestinvest</b>	Mark Kary	Robin Vela
<b>JM Finn</b>	Andrew Cornwell	<b>Nationwide Building Society</b>	
Thomas Rowan	Benjamin Gilbert	Warren Sanger	<b>Chartered MCSI</b>
<b>Jersey Financial Services Commission</b>	Thomas Hawkins	<b>Nexus</b>	<b>Charles Stanley</b>
Tony Shiplee	Sally Merritt	Emanuel Lantzios	Alexander Gibbins
<b>Kleinwort Benson</b>	Louise Yandall	<b>Nils Taube</b>	Mark Henderson
Jeremy Beckwith	<b>BlackRock</b>	Simon Porter	Edward Playne
Edward Heckels	Damian Randall	<b>Portland</b>	<b>CQS</b>
<b>Lighthouse Group</b>	<b>BNP Paribas</b>	William McEwen	Kathryn Haswell
Mark Ross	Max Guild	<b>RAK Bank</b>	<b>Legal &amp; General</b>
<b>Merrill Lynch</b>	<b>Brewin Dolphin</b>	Dinu Divakaran	Sean Gardner
Edward Colman	Lorraine Armstrong	<b>Ramsey Crookall</b>	<b>Psigma</b>
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Emmanuel Chokani	Lucy Hilton	<b>RBS Coutts</b>	<b>Smith &amp; Williamson</b>
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Roger Cassells	<b>Capital International</b>	Rupert Armitage	Alison Jessop
<b>Royal Bank of Canada</b>	Helen Long	William Porter	<b>Others</b>
Allan Little	<b>Chamberlain</b>	<b>SMB Securities</b>	Mohammad Saeed
Tracy Maeter	Richard Quine	Zairaa Kaleel	Christopher Sharkey
<b>Royal Bank of Scotland</b>	<b>Charles Stanley</b>	<b>Standard Chartered Bank</b>	Shengxing Yang
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<b>Shoosmiths</b>	<b>Credit Suisse</b>	Jai Tan	
Diane Forster	Neil Nicol		

*This list includes membership admissions and upgrades from June 2011*

Philip Perchard and his fiancée Georgina  
Grant dive in Truk Lagoon, Micronesia

# In the deep

A love of diving has opened up the underwater world for Philip Perchard MCSI. **Lora Benson** reports



Philip Perchard  
MCSI

**A RECENT MOVE** from his native Jersey to live and work in Singapore is enabling Philip Perchard to try new experiences – and not just on dry land. Outside work, Philip, Head of Compliance for trust company Asiatic Trust, is using the opportunity to explore different waters through his passion for diving. He says: “My favourite dive location to date in this part of the world is Truk Lagoon in Micronesia – half way between the Philippines and Hawaii – which is home to more than 40 Japanese shipwrecks from World War II. The visibility underwater, the condition of the wrecks, the history and the lack of current make it an awesome experience.” He started diving in 2001 in Jersey with his brother, father and his now fiancée Georgina. “It was something we could do as a family to relax and it also provided some food for the summer barbecues. Jersey scallops are some of the best in the world, especially when freshly caught by your own hand and cooked the same day,” he says. Philip was gripped by the hobby and took a range of diving courses during his holidays. He began helping with weekend courses at a local dive school before passing his instructor course in 2009, which enabled him to teach groups of students. The Professional Association of Diving Instructors (PADI) course, which takes a week, involves about six months

of preparation, covering areas including dive theory – particularly physics and physiology – and rescue and first-aid skills. “As a diving instructor, you need to give confidence to your students so that they enjoy themselves and want to come back for more,” he explains. He adds that this requires being able to work independently or as a team with other instructors, organise large groups of people safely and be able to respond quickly to any situation that arises in the water. He now plans to run diving courses in his new

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*“When a humpback whale comes within a few metres of you, you feel very small and insignificant”*

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Far East home. Philip has dived all round Jersey and some of the other Channel Islands, but he would like to explore the seas around the UK further. He says: “The biodiversity is amazing, conditions are so variable and the shipwrecks are truly historic. The UK has many famous diving locations, probably none more famous than Scapa Flow, where a number of wrecks from World War I are located. “The downsides are the weather, the currents and the visibility, which for some can make diving just a summer activity. I like to dive all year round, as you can really notice the change in seasons – under the

water as well as above. In Jersey we have some of the biggest tidal movements in the world: the tide can move as much as 40ft between high and low tide.” Probably the most unorthodox dive location Philip has ventured into was an aquarium in a Dubai shopping centre. He says: “I was working in Dubai and wanted something to do in the evening. It was surreal to be 10m deep in the company of a sand tiger shark while watching shoppers.” Another memorable experience was when he got up close to a humpback whale while diving off Newfoundland. He recalls: “When a humpback whale comes within a few metres of you, you suddenly feel very small and insignificant. They are amazing. “Having tried to take some video footage of my encounter, the people I have the most respect for are the ones who film underwater footage for programmes such as *The Blue Planet*.” Philip’s dream is eventually to open his own dive school and “try to give something back by showing people how beautiful and fun diving can be”. Aside from diving, Philip trains in karate and is a 3rd Dan with the Ken Yu Kai Karate Association. He competes every year at national championships in Manchester and has represented Jersey on a number of occasions. He has now started training with a club in Singapore. ■

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



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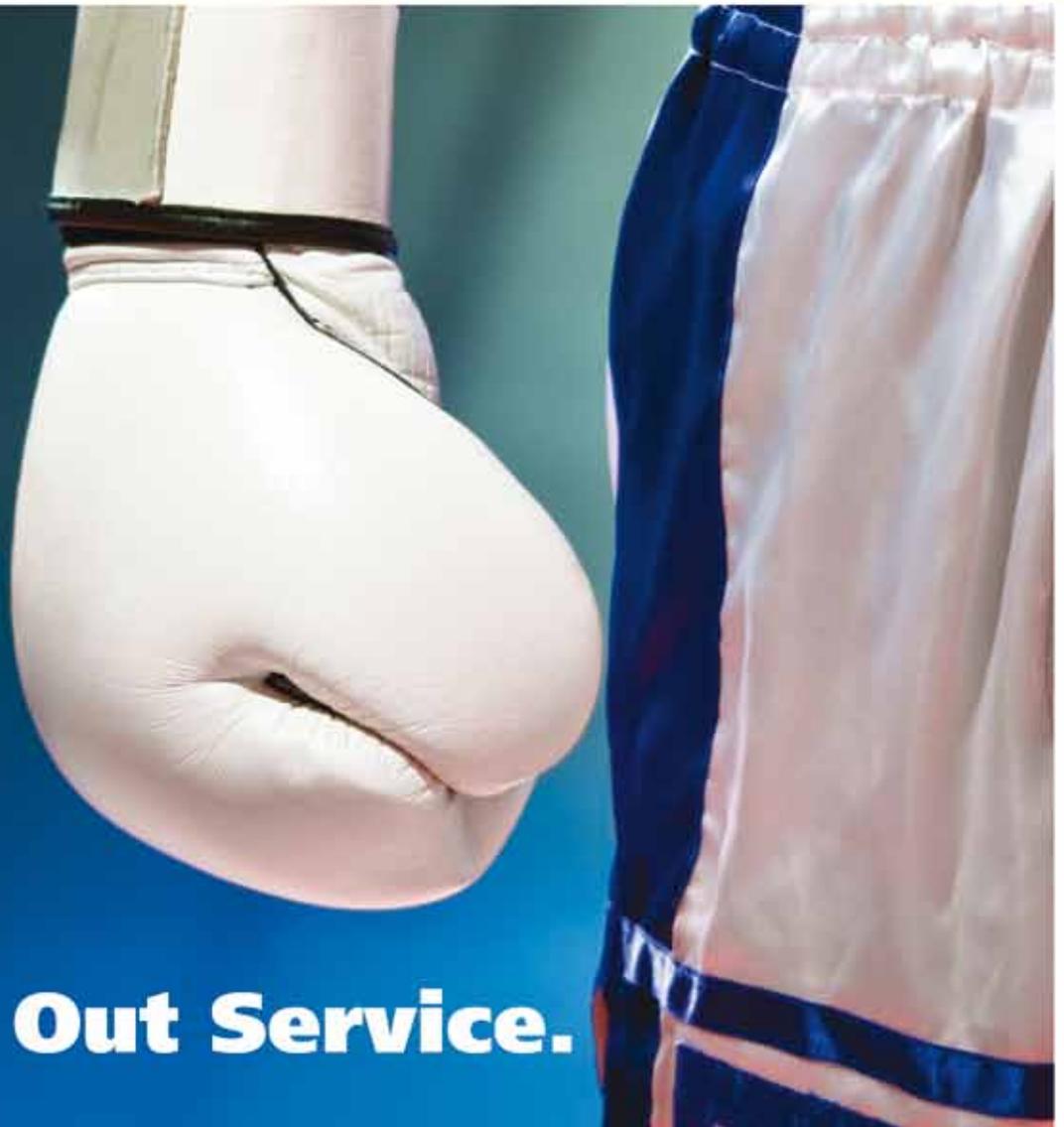
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