SECURITIES & INVESTMENT

REVIEW

JANUARY 2013

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

cisi.org/sireview

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Program "CCS – Certified Clearing Specialist"

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Securities & Investment **January 2013**

REVIEW

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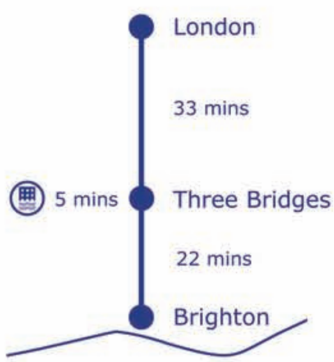

Dowgate has been in business for over 20 years. We have just completed a management buy out and are looking for new investment advisers to join us. We offer a traditional stockbroking service mainly to private clients. In addition, we provide corporate broking services to smaller companies on the AiM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

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CISI OPINION

Reinforcing standards for its members is a core objective for the CISI. In pursuit of this, the Institute continues to engage with professionals to promote financial integrity

Best behaviour

NO SELF-RESPECTING business these days fails to publish a mission statement and the CISI is no exception. Through also being a charity, our key aims are repeated in our charitable objectives. Consequently the phrase "to develop high ethical standards for practitioners in securities and investments and to promote such standards in the UK and overseas" should already be familiar to readers, but we make no apology for repeating it.

However, these days it is not sufficient simply to be aware of such aspirations, which all too easily can be reduced to platitudes. It is necessary to demonstrate adherence to the creed regularly and publicly, which is driven not just by membership of a professional body, but also, increasingly, as a requirement of regulators and an expectation of society.

Many readers are affected by the requirements of the Retail Distribution Review, which is now live. They have found themselves having to undertake one of the Institute's several offerings designed to heighten awareness of the need for integrity and to recognise ethical dilemmas, and think about appropriate responses to them. However, we have argued consistently that there should not be different demonstrable standards of ethical awareness between different sections of financial services and are introducing a series of changes to our requirements in this respect.

Readers will be aware that obtaining and maintaining membership at CISI voting level (MCSI and FCSI) now requires new applicants to obtain a grade-A result in IntegrityMatters, the Institute's online ethics test, and existing members to pass the Ethics & Integrity module of the Professional Refresher elearning tool. This requirement is irrespective of the member's role.

In furtherance of our aim to encourage ethical awareness, we shall be introducing a requirement from 1 April 2013 that UK candidates for CISI level-3 Certificate exams must have obtained a grade A or B pass in IntegrityMatters as a prerequisite to sitting the exam. This will highlight to new entrants to the industry at an early stage in their career, the importance of ethical behaviour.

> ***We aim to encourage ethical awareness***

For our part, and in keeping with our charitable objectives, we shall be donating the income from this new initiative to the CISI Educational Trust, the Institute's education charity.

In considering the need for members to adhere to the highest standards of ethical behaviour, we should not overlook the fact that failure to do so will result in the member being invited to attend a disciplinary hearing. This is spelt out in the Institute Code of Conduct as follows: "Material breach of the code of conduct would be incompatible with continuing membership of the CISI and may result in disciplinary action."

The Code of Conduct, known as the Lord George Principles in recognition of the contribution made to standards of integrity by the late Lord George FSI(Hon), is an important high-level statement of intent. The CISI shares this code with the Worshipful Company of International Bankers and the principles recently received a valuable boost, being recommended by the Chairman of HSBC as an appropriate standard for the City.

There has been criticism voiced at the lack of enthusiasm of professional bodies for taking action against members who have transgressed. While the charge is not without foundation, changes to the regulatory landscape and the granting by the FSA of accredited body status to a number of organisations, including the CISI, mean that professional bodies are likely to be more assertive in pursuing transgressions. That does not mean that expulsion from membership will be the only outcome, since a graduated range of sanctions may be applied, but serious transgression may result in such a result. That certainly is in line with the public mood and may well be reflected in the outcomes of the Tyrie Commission, which is looking at the culture and standards of banking in the UK.

Your Institute remains committed to helping members to meet all these challenges and to play a full part in maintaining the high standards expected of us. ■

Upfront News and views from the CISI

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

QUALIFICATIONS

New diploma aimed at schools and colleges

The CISI has noted with growing concern the decline in UK secondary schools offering subjects relevant to modern-day business and finance.

In response, it has launched the new Diploma in Finance, Risk & Investment to help schools and colleges to prepare students for both university and the world of work.

The A-level equivalent Diploma comprises two certificates, which can be taken in any order, to suit the curriculum demands in each individual school.

One of the certificates, the Introduction to Securities & Investment (the CertISI) has been successfully delivered in schools for the past two years. Added to this is the new Certificate in Finance, Risk & Decision Making (Cert FRDM), which will be taught from September 2013. The Diploma is completed by achieving both Certificates.

The CISI is aligning the new Diploma with work experience opportunities for students studying its qualifications, offering them access to vital practical experience through support from its education charity, the Educational Trust.

CISI Managing Director, Ruth Martin, said: "We are delighted to provide a new qualification, equivalent to an A-level, that helps young people enter this industry, either as school leavers or after university. We are confident that we will continue to make a real difference to the career choice for young people now and in the future."

Economics and Business Studies teacher, Nick Seaward, Chartered FCSI, was asked by the Institute to devise a new syllabus that combines the best elements of Business Studies with basic accountancy techniques and relevant aspects of economics. Here Nick, who teaches at Kemnal Technology College in Sidcup, explains the thinking behind the development of the Diploma in Finance, Risk & Investment.

"At GCSE level, the number of students in the UK achieving a pass in Business Studies is down by 34% since 2006, while Economics is up by 16%, but from a tiny base. Schools and parents have lost patience with the steady dumbing down of syllabus content over the past 20 years. The school where – just two years ago – I was teaching two 30-strong classes of GCSE Business Studies students now has none.

"The Russell Group of top universities has excluded Business Studies and Economics from its list of 'facilitating' A-level subjects most likely to help a student gain admission – even branding Business Studies as a 'soft' subject, along with Media Studies and Photography.

"More recently, the Department for Education has excluded both subjects from its proposed list of English Baccalaureate Certificates, which, once introduced, will count towards the EBacc standard by which all schools in England will be measured.

"The CISI believes that there is a pressing need for a new subject to continue the teaching of business and finance in UK secondary schools. The new Diploma in Finance, Risk & Investment represents a return to first principles, requiring numeracy, analysis and – above all – academic rigour."

For further information visit *cisi.org/dipfri*

EDUCATION

UWE becomes CISI Centre of Excellence

CISI Managing Director, Ruth Martin, left, and Dr Jane Harrington, Dean of the Faculty of Business and Law at the UWE, sign the agreement

The University of the West of England (UWE) has been recognised as a CISI Centre of Excellence in finance teaching.

The agreement allows the university to:

- submit its Masters programmes to be considered for equivalence in respect of the CISI Diploma
- be accredited for the delivery of courses leading to CISI exams and, if needed, to use other Institute-accredited training providers for selected papers
- be eligible to submit undergraduate programmes for consideration for part or full exemption in respect of CISI exams
- develop undergraduate programmes, by embedding CISI units within them.

UWE MSc Finance graduates will be eligible for full CISI Membership (MCSI) and those taking undergraduate degrees will be able to secure Associate (ACSI) membership, subject to the content of the study programme.

CISI Managing Director, Ruth Martin, said: "We are delighted to be working with the UWE, which clearly recognises that a professional qualification, undertaken as part of a challenging and high-quality undergraduate programme, can ensure a student gains a competitive edge in the jobs market."

Professor Jon Tucker, Director of the Centre for Global Finance at the UWE, said: "We look forward to our Masters students graduating with both a UWE MSc Finance degree and the CISI Diploma, which will provide them with a firm foundation for a career in finance."

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The number of UK universities now working with the CISI at undergraduate and postgraduate level, providing opportunities for students to gain a professional qualification while studying.

CPD

Active Learning webcasts

CISI members can now log Active/Structured learning CPD by taking a quiz after watching some CISI TV programmes.

By scoring 80% or above in the five-question quiz, members will earn Active Learning CPD for the event they have watched and will gain an extra 15 minutes of CPD for completing the test. Until now, CISI TV programmes have counted as Reflective/Structured Learning under the CISI CPD scheme.

The quiz will apply to new Active Learning webcasts, which are clearly identifiable by the stamp shown here.

To take the test, simply go to the 'Links' menu on the right of the programme after watching a

relevant webcast and press 'Active Learning Quiz'. Once you have submitted your answers, you will see your score. Your CPD log will then be updated overnight.

For those affected by the Retail Distribution Review (RDR), taking these tests will count towards the structured learning requirements for CPD under the RDR.

For further information, visit *cisi.org/cisitv*

PARTNERSHIP

Boost for Singapore students

Students from Temasek Polytechnic (TP) in Singapore can now attain two internationally recognised CISI qualifications, thanks to a new partnership agreement.

The qualifications – the Investment Operations Certificate (IOC) and the International Certificate in Wealth Management (ICWM) – will be available to students undertaking the polytechnic's Diploma in Financial Business Informatics programme.

The IOC is aimed at those working in operational and support roles in financial services. The ICWM helps wealth managers and advisers to understand the range of assets and investment products

Robert Cronin ACSI, CISI Director, Asia-Pacific and polytechnic Director Lee-Lim Sok Keow sign the agreement

available in the market.

CISI Chief Executive, Simon Culhane, Chartered FCSI, said: "Temasek Polytechnic graduates will have the opportunity to combine an academic award of excellence from TP with a highly regarded, globally portable vocational award from the CISI. This will offer students a distinct advantage in the jobs market."

Lee-Lim Sok Keow, Director, School of Informatics & IT at TP said students would benefit from securing qualifications that are "highly relevant to the financial services industry and recognised internationally".

- The Institute of Financial Services (IFS) Malta has linked with the CISI to offer its first-ever qualification at postgraduate level with a specialisation in wealth management. Commencing on the island in January 2013, the CISI's Masters in Wealth Management is accredited by the Malta Qualifications Council and approved by the Malta Financial Services Authority.

FEEDBACK

Your say

The* S&IR *is your CISI membership magazine and we want to hear your views. To get in touch, email richard.mitchell@cisi.org, leave a comment at cisi.org/sireview or follow @CISI on Twitter.

Dear *S&IR*,
I read with interest the CISI's opinion ('City View', *S&IR*, November/December 2012) that the US is guilty of "behaving like a bully" in imposing the Foreign Account Tax Compliance Act (FATCA).

The CISI's observations about the destructive consequences of FATCA have eluded most commentators. This ill-considered law, purportedly designed to catch tax cheats who hide their money abroad, is a bad deal for both the US and other countries.

Of particular note are the Institute's comments that:
1. simply dropping American clients will do little to insulate a non-US financial institution from significant costs and responsibility imposed by FATCA in identifying US clients and reporting them to the Internal Revenue Service (IRS)
2. pursuant to an inter-governmental agreement (IGA) on FATCA between the US and the UK, "putting the costs on the UK is unfair and our Government should have the courage to say so".

US firms, and Americans in general, are largely oblivious to the costs FATCA would inflict on them. These include a dramatic reduction in investment in the US – investors will simply take their money elsewhere – and FATCA-like reporting requirements to which US institutions, which operate under IGAs, will be subject.

Conversely, it seems many foreign financial institutions (FFIs) are their own worst enemies, having been sold on the idea that FATCA compliance is the only conceivable path.

FATCA was enacted in 2010 under little scrutiny. Political resistance to it in the US is growing and this law needs to be stopped before it is fully implemented.

Two priorities to force a repeal of the act are that:
1. foreign governments being cajoled by the US Treasury department to sign an IGA over FATCA – and effectively become a deputy of the IRS – need to say, "No"
2. both American and non-US firms need to stop acting as enablers and lobby to force a rethink.

For further information, visit repealfatca.com, a website dedicated to getting rid of this law.

James George Jatras, US government relations specialist, Washington DC, US

Deepak Lalwani, Chartered FCSI

Dear *S&IR*,
The CISI's Isle of Man branch recently held an educational seminar, titled 'India – Growth to Resume?', with Deepak Lalwani OBE, Chartered FCSI as speaker and it proved a great success. It was attended by 40 local members and around half stayed on to network over a curry dinner. The CISI holds a number of branch events like this and I would urge all regional members to make sure that they are aware of the programme available to them locally.

I would also like to thank Deepak, Director of Lalcap Ltd and Consultant – India at stockbroker, WH Ireland, for an excellent event.

Sue Preskey, Chartered FCSI, CISI Isle of Man branch President

Turn to page 27 for a list of forthcoming branch events.

60-second interview

As a member of the CISI's National Advisory Council in Switzerland, Dr Jeannette Wibmer, Attorney-at-Law, helps guide the Institute's Swiss work. Based in Zurich and Zug, she is a partner with law firm Badertscher Rechtsanwälte AG

Q ***Has Switzerland been hit badly by the global financial crisis?***

With its long tradition of banking and finance, Switzerland has coped better than most countries. There has been only a small amount of consolidation in the Swiss banking and finance industry; most of it coming from partial sales by foreign players who have a Swiss presence. The Swiss financial centre is – since the crisis and the turmoil within the eurozone – more than ever perceived as the true 'save haven' for money seeking a home.

Q ***How big a player is Switzerland in international financial services?***

The global volume for cross-border private banking business hit $7.4tn in 2011. Of that amount, Swiss banks accounted for 26.9% of the market share – making them the global market leaders. For structured products, Switzerland is likewise number one globally in market volume terms. In 2011, the Swiss financial sector had an aggregate inland income of CHF59.4bn ($63.1bn), accounting for 10.3% of the country's annual GDP. That same year, the industry employed 195,834 people in Switzerland and 180,269 abroad.

Q ***What challenges is the industry attempting to tackle?***

Switzerland has taken a key step in changing its appearance as a tax haven. This has been achieved by adopting the Organisation for Economic Co-operation and Development's (OECD) standard on cross-border information exchange in tax matters. The nation has also entered into fresh double taxation treaty amendment negotiations for the implementation of a final withholding tax that favours various countries, including the UK, Germany and France. To enhance client security further, FINMA, the Swiss Financial Market Supervisory Authority, has developed revised 'Swiss Finish' capital adequacy requirement rules for banks and insurance companies that go well beyond the international Basel III standard.

Another area being addressed relates to independent asset managers who – with the exception of investment fund and pension fund managers – are not subject to any prudential supervision by FINMA, but only to the Swiss Anti-Money Laundering Act. This rather lenient regulatory supervision is planned to become more stringent.

ASIA

Stronger ties in India

The CISI and the Institute of Cost Accountants of India (ICAI) are to develop further their relationship in India, and to make the collaboration a global one.

The ICAI is the premier accounting body in India, and the world's second largest.

An MOU was signed in December 2011 with the aim of promoting CISI qualifications and membership to ICAI members. In the coming year the two bodies will host a series of joint events, which will be open to ICAI members across their 92-office Indian network.

Kevin Moore, Chartered MCSI, CISI Director of Global Business Development, said: "The CISI is looking forward to working more closely with the ICAI to develop the relationship for the benefit of the industry in India."

Sanjay Gupta, Chairman, WTO and International Affairs Committee of the ICAI, said: "The ICAI looks forward to creating more knowledge horizons with the CISI for the corporate fraternity."

Sanjay Gupta, Chairman, WTO and International Affairs Committee, ICAI, pictured left, with Kevin Moore, Chartered MCSI, CISI Director of Global Business Development

INSPIRE

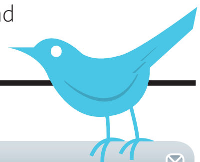
Next generation calling

Would you like to be an inspiration to others and help to develop some of the financial services stars of the future?

If you are based in the UK and work in a financial services role, you can make a difference to school, college and university students who are studying related topics.

Be a guest speaker at a university, or simply attend a careers presentation at one of your local schools and you can earn CPD hours for 'Developing others'.

If you would like the CISI to contact you about speaking opportunities in the future, please email educationdevelopment@cisi.org, stating your name, membership number, current job title and career summary.



ONLINE

BEST OF THE BLOGS

1 tinyurl.com/c4wg87e

One response to July 2012's Kay Review concerning corporate governance maintained the report should have focused more on the role of investment banks, and not just on asset management. In his blog on the subject for *Fundweb*, Richard Saunders, Chief Executive of the Investment Management Association, states: "Investment banks advising companies have an incentive to maximise corporate transactions because they are generally only paid if the deals are completed. But asset managers operate on a different basis: they are paid a percentage of the value of the assets they manage. This firmly aligns their interests with those of their clients."

2 tinyurl.com/c6uqvnt

For Charles Bowman, Chairman of the Audit and Assurance Faculty of the Institute of Chartered Accountants in England and Wales and Partner at PricewaterhouseCoopers, the many virtues of the Kay Review may be undone if Government backing of its recommendations is not forthcoming. The key solutions Kay proposes to fixing the financial machine – on the themes of restoring trust between investors, companies and intermediaries, and creating a culture that incentivises the right behaviour – may fall by the wayside without adequate backing from politicians, regulatory authorities and the key players in the investment chain.

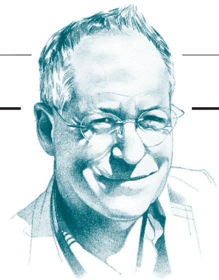
3 tinyurl.com/b4phtrc

For at least one blogger beating the environmental drum, the Kay Review lacked bite when addressing the link between sustainability concerns and the practice of asset management. In the words of a post devoted to the Kay Review published on *Forumforthefuture*, "the fundamental problem is that it doesn't stress the obvious link between long-term financial performance and sustainability issues." The authors clearly were exercised: "By missing the opportunity to put key long-term issues such as the environment firmly on agendas throughout the equity investing chain, the review doesn't go as far as it could have done."

See page 16 for more about corporate governance.

Do you have a blog recommendation?

Send it to the Editor: *rob.haynes@wardour.co.uk*



CLAY *'MUDLARK'* HARRIS

Alastair Majury ACSI, Senior Business Analyst (contract), Barclays

Alastair Majury ACSI is not one to sneer at 'McJobs'. It is only recently, after more than six years spent in financial services, that his time in the sector has exceeded the length of employment at his first employer – McDonald's.

Alastair now works as Senior Business Analyst for Barclays in Glasgow. It is a contract position, as most of his roles have been since his first and longest financial services job, with HSBC Securities Services. That, for many, is the nature of a back-office career in 2013.

Superficially, at least, there's a contrast with the security and the structure of his experience at McDonald's, during which he rose from crew member to administrative manager at its Stirling drive-through restaurant.

When studying at the University of Glasgow for his first degree, in economics, Alastair travelled the 30 miles back to Stirling each weekend to work shifts. During summer holidays, he worked there full time.

Overall, he spent six years at the restaurant, while earning an MSc in information technology at the University of Stirling. Once he completed his studies, Alastair continued working at McDonald's before changing direction and moving into financial services.

What did he learn at McDonald's? The importance of each step in a process – "some of them you hate, but they all need to be done" – and how to organise different teams of people. He also developed a strong work ethic that has served him well in the financial world.

At HSBC, Alastair worked as a market data administrator in an office that was a legacy of the bank's takeover of Bank of Bermuda. Most of its clients were hedge funds. He largely worked as a business analyst for the over-the-counter derivatives team and global market data department.

Alastair has a strong work ethic that serves him well

After nearly three years, however, he could see little prospect of making progress, so he took a year's break to earn a post-graduate diploma in banking from the University of Stirling.

It was an opportunity not only to enhance his qualifications in areas specific to investment banking, but also to demonstrate to future prospective employers his commitment to the sector.

Alastair returned to the job market as a change analyst for Royal Bank of Scotland Change Services. In the role, he was an active intermediary between the business unit that specified its needs and the IT department.

That first financial position was as a contractor, but the job was outsourced after a year, and he went on – again as a contractor – to manage and implement an initiative for Citibank. During his stint as Project Manager, Alastair made sure the work was completed on time.

Alastair then joined Barclays as a senior business analyst, working on its Project Gamma expansion programme.

When his part of the project was put on hold, he left at the beginning of 2012 to travel in California for a month. "When I got back in February, it took me to until July to find a job," he says.

The role, which Alastair still holds, was again with Barclays on Project Gamma – this time working on the creation of a central data warehouse.

Planning a career is difficult in a less predictable and more insecure job market than enjoyed by some earlier generations of professionals.

Alastair acknowledges: "Our industry as a whole is operating in a tough environment, and the back office faces extra challenges and change because of offshoring. But change brings opportunities, so it's important to keep your eyes open and grab any that come your way."

Alastair Majury

Senior Business Analyst (contract), Barclays

Do you have a back-office story?

mudlarklives@hotmail.co.uk

Illustration: Luke Wilson

CPD EVENTS

Generation Y and money

From left, Stephanie Rochford, Sophie Robson and Harriet Lloyd-Dehler

Stephanie Rochford of think-tank Z/Yen and Sophie Robson of the Centre for the Study of Financial Innovation (CSFI) launch the first in a new series of 'CISI Essentials' events.

This entertaining and informative event will focus on a report edited by Sophie, *Generation Y: the (Modern) World of Personal Finance*, which probes how tuned in to finance young people – the clients and financial services employees of the future – are. By extension, this will provide a valuable insight into what the coming years hold for financial services, and for wealth management firms in particular.

The event will take place at Cass Business School in the City on the evening of Tuesday 29 January. It will be chaired by Harriet Lloyd-Dehler, Learning & Development Manager, Charles Stanley, and will also feature Jeannette Lichner MCSI, author of the recent CISI-supported book on personal finance, titled *#yourmoney*

For more information or to book a place, please visit *cisi.org/eventscal*. Turn to pages 27 and 28 for a listing of forthcoming CISI events.

SELECT BENEFITS

Healthy body, healthy mind

If you are looking to get into shape in the New Year, let CISI Select Benefits help.

Get discounted corporate membership to a network of more than 2,500 gyms run by leading names such as Fitness First, DW Sports, Nuffield Health, David Lloyd and LA Fitness with an Incorpore membership. You will save at least £50 and as much as £250 against the normal rate*.

To find out more and to obtain your Incorpore gym pass, visit CISI Select Benefits via *cisi.org/memberlogin*. You can use the online proximity report to find your nearest gym or health club.

*Terms and conditions apply. See website for further details. Correct at time of going to print. Saving may be less if you are an existing member switching to the cheaper membership at the same club. CISI Select Benefits is managed on behalf of CISI by Parliament Hill Ltd, 3rd Floor, 127 Cheapside, London, EC2V 6BT. Neither are part of the same group as a provider.

Ask the experts...

Roland Bellegarde
Executive Vice President for European Listing Business and Cash Trading at NYSE Euronext

THE FRENCH FINANCIAL TRANSACTION TAX

What is it?
The French Financial Transaction Tax (FTT), which was introduced on 1 August 2012, is applicable to buyers of equities in French-listed companies with a market capital of more than €1bn. It is paid by the buyer of the securities, rather than the seller, at a rate of 0.2% of the gross value of the transaction and the tax is collected at the time of change at the level of the custodian. It is applicable to any size of trade, whether it be for 20 or 20 million shares. However, with derivatives and fixed-income products being exempt, in its current format the FTT essentially targets long trades on equities. Interestingly, the tax is applicable to trades in American Depository Receipts (ADRs) for French companies listed on exchanges outside of France. In this situation it is up to the brokers trading in the relevant companies to report the information about the trades, which agreements between different tax authorities may aim to formalise in future.

Why was it introduced?
The initial statement of intent for the tax was to both curtail speculation and raise funds for France by charging the financial industry, a sector that politicians view as one of the causes of the financial crisis. At present, the tax revenues go into France's budget, and there is no special allocation for the money raised (like a possible bailout fund for future crises). It was initially expected that €1bn would be generated per year, although the actual figure looks likely to be much smaller. From the latest figures, the total volume traded on the taxed securities appears to have lowered by some 10% to 15% since the introduction of the FTT.

However, what is clear is that more synthetic products are being traded, particularly contracts for difference (CFD), the market for which offers the buyer access to French securities without actually owning the underlying asset (and thereby avoiding the tax).

The political stance
The tax, first suggested by former president Nicolas Sarkozy in January 2012, has been implemented by the current head of state, Françoise Hollande, in the original spirit – to tax without hampering the competitiveness of the French financial sector, which includes providing enough exemptions for this to happen. It seems, however, that current discussions at the European level will aim for a regime that does not just target buyers of equities, but could extend to derivatives and fixed-income products, which may impact the competitiveness of France as a financial sector.

If you look at the people paying the tax, it seems to be end investors. The French market has a lot of asset managers, who are channelling the tax through their management fees. In effect, this is a tax that falls back on to the investor. Currently the many exemptions add to this, although the situation may change if there are fewer exemptions, especially if other financial services or the liquidity provided by banks will be targeted.

Beyond France
Elsewhere in the European Union, ten member states (including Germany, Italy and Greece) are planning to introduce similar taxes that will target more products, including derivatives and fixed-income securities.

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

TWITTER

Support for Oxfam

Christmas may be over, but you can still support a CISI fundraising campaign in aid of Oxfam, which ran over the festive season.

The Institute pledged to donate £1 to Oxfam for every user who chose to follow the CISI on Twitter in December. That offer has now been extended into the New Year.

The CISI has also been helping Oxfam by collecting clothing and books for the charity, and its CPD & Networking team has been volunteering at a donations warehouse.

To support Oxfam, simply follow the Institute on Twitter @CISI. If you are already an Institute follower, then you can do your bit by suggesting @CISI to others. Finally, get involved with the Institute on Twitter and join in the conversation.

#FollowCISIandHelpOxfam

LUNCH FUNDRAISER

Charity curry

Hot up the springtime by enjoying the Lord Mayor's Big Curry Lunch. The event will be held at the Guildhall in the City of London on Thursday 18 April in aid of ABF The Soldiers' Charity.

In the past five years, the annual lunch has raised £860,000 in aid of current and former servicemen and women, regulars and reservists, and their families who have been affected by the conflicts in Afghanistan and Iraq.

Tickets are priced £95 and include a choice of curries, dessert, coffee, wine, beer and mineral water.

For further information, visit *bigcurry.org*

QUICK QUIZ

Test your industry knowledge

Illustration: Cameron Law

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

Answers are on page 29.

To order CISI elearning products, please call the Customer Support Centre on ***+44 20 7645 0777*** or visit ***cisi.org***

Q1. Bonds issued by organisations such as the World Bank, European Investment Bank and Asian Development Bank are known as:
A) Treasury bonds *B)* Municipal bonds *C)* Supranational bonds *D)* Agency bonds

Q2. Which ONE of the following is a principle for an Approved Person?
A) Manage conflicts of interest fairly using Chinese walls *B)* Observe proper standards of market conduct *C)* Communicate in a clear, fair and not misleading manner *D)* Arrange adequate protection for clients' assets

Q3. Which ONE of the following criteria must be met by a company seeking admission to AIM?
A) Appoint a nominated adviser and broker *B)* Have a trading record of at least one year
C) Issue at least 5% of its shares to the public *D)* Have a market value exceeding £700,000

Q4. Which ONE of the following represents equity in a balance sheet?
A) Current assets – current liabilities *B)* Fixed assets + current assets
C) Fixed assets – current liabilities *D)* Share capital + reserves

The year ahead

The financial services industry may face uncertain and volatile times, but that hasn't stopped Christopher Adams from making a few predictions for 2013

HERE ARE THE big questions and answers for 2013. (The usual caveats apply as the margin for error is huge.)

Will the eurozone emerge from recession? Yes, but only in the second half of the year. The single currency area, still in the grip of its sovereign debt crisis, is struggling with the heavy fiscal austerity administered to drive down huge national deficits. That, and already weak demand, has stymied recovery prospects, making it difficult for governments to generate the higher revenues needed to reduce debt. Yet, there are signs of a pick-up in manufacturing and, while even Germany could slip briefly into recession in the first quarter, the worst may soon be past. Assuming the euro falls – and it should – then European exports should benefit from a recovery in global demand. Do not expect a big rebound in Europe however.

Will America topple over the fiscal cliff? Nearly. US politicians will strike a deal, but investors' nerves could well be shredded in the run-up to what will be seen as a watery compromise over a budget that averts much of the $600bn of automatic spending cuts and tax rises due to kick in from January. At the time of going to press, talks between President Barack Obama and the Republicans were continuing. Agreement will mean America avoids another economic slump.

Will China suffer a hard landing? No. True, its economy has slowed for seven straight quarters and is likely to have recorded its lowest annual growth for a decade in 2012, and the bad vibes have deterred many Chinese investors, burnt by the equity bubble in 2007. Yet the most recent data suggests the economic slowdown may have run its course: trade figures have pointed to a bounce, while manufacturing and retail sales have improved. Stronger US demand will spur growth.

What does this mean for equity markets? The big tail risk remains a deterioration in the eurozone debt crisis. However, the European Central Bank's pledge to backstop the sovereign bond markets of nations such as Spain and Italy (should they apply and meet the conditions for a bailout), combined with credible moves towards a banking union, mean that the worst-case scenario of a euro break-up is unlikely. That, plus the US Federal Reserve's continued asset buying, has already supported stocks in 2012. Equities will see further gains in 2013 as consumer spirits in the US, where conditions are more promising, improve. For all the safety they offer, ultra-low yields on safe government bonds will be less attractive. Emerging markets, sensitive to global prospects, will prosper – as will the UK's resource-heavy FTSE 100.

> “The big tail risk remains a deterioration in the eurozone debt crisis”

Does that mean Britain's housing market will take off? No, it doesn't. First, the post-crisis austerity drive in the UK still has some way to run. Second, Britain's exposure to the eurozone through trade links will mean anaemic domestic economic growth in 2013. Third, the latest wave of banking job losses will keep activity in the south-east subdued for much of the year, while more public sector cuts will weigh on house prices further north. All this matters, because confidence is crucial for housing. The Halifax House Price Index shows property prices were all but unchanged in the year to November 2012. Expect more of the same.

And UK interest rates? There is little reason to believe the Bank of England will raise its benchmark interest rate from the historic low of 0.5%. If anything, the debate on the Bank's Monetary Policy Committee for the early part of 2013 will be whether to launch another round of quantitative easing (QE), under which the Bank has already bought £375bn in assets. With no sign that the Chancellor, George Osborne, is about to relax fiscal policy, and with the UK economy at risk of another contraction, the odds on further QE have shortened. Ultimately, QE alone will not be enough. Britain's open economy means it will need stronger European demand, combined with a recovery in the US, to avoid years of stagnation. ■

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

Building BARRIERS

A slew of new regulation around money market funds threatens to transform a central pillar of the 'shadow banking' industry. **Andy Davis** explains

IT WAS ARGUABLY THE biggest bank run in history, except that no banks were involved. Immediately after Lehman Brothers filed for bankruptcy in the US on 15 September 2008, panicking investors withdrew more than $300bn from money market funds (MMFs). These are investment vehicles that allow companies, institutions and, especially in the US, retail investors to invest surplus cash that can be redeemed on demand with no penalty. The funds take this cash and buy very short-dated government bills and highly rated bank and corporate debt that in normal times will give a slightly better yield than the main alternative – a bank deposit account.

In common with its rivals, the Reserve Primary Fund, the oldest MMF, had begun the week of 15 September with a fixed net asset value (NAV) of $1 per share. This fixed NAV is totemic for investors in MMFs, signifying that if they pay $1 for a unit in a fund, it can be redeemed for $1 at any time. Not that week. Among its $65.5bn portfolio of high-quality, short-duration securities, Reserve Primary was holding $785m of debt issued by Lehman's that was now worthless. The result was that the fund's NAV fell below $1 to 97 cents and its manager suspended redemptions.

The shock to the financial system was immediate. When investors realised that cash invested in MMFs could fall below its face value, and they might not be able to withdraw it on demand, they dashed for the exits. Sudden widespread withdrawals threatened the entire financial system and the US Treasury was forced to step in to guarantee the value of the fund's assets.

New rules

MMFs are a vast but little known part of the financial system – funds in the US are estimated to have some $2.7tn under management out of a global total of $4.7tn. Members of the UK-based Institutional Money Market Funds Association (IMMFA) had €522bn under management as of 30 June 2012 out of a European total of more than €1tn. A significant percentage of fund assets are invested in short-term debt issued by banks, so the sudden wave of redemptions after Reserve Primary 'broke the buck' meant a huge potential loss of funding for the banking system, which pointed to a large systemic risk. In many ways, this was the greatest risk that Lehmans' collapse precipitated: forced sales of securities by MMFs to meet redemptions that could trigger a run on the banks.

"The sums are huge," says Martin O'Donovan, Deputy Policy and Technical Director at the Association of Corporate Treasurers (ACT), whose members are big users of MMFs. "So the disruption back in 2008, when Reserve Primary got into problems, immediately flowed through into a huge withdrawal of funding to banks. The ripple effects were colossal." They reached the UK, where, in early 2009, insurer Standard Life wrote down the value of its £2.4bn Sterling Fund by 5%, due to problem holdings of mortgage-backed securities.

The sudden, powerful illustration of how destabilising a true run on MMFs could be to the banking system and the wider economy prompted immediate moves by regulators to improve oversight of the funds. Alongside well-publicised international efforts to regulate the banking system, similar measures exist to control the so-called shadow banking system, which includes MMFs.

In May 2010, the first changes to the rules governing US MMFs were introduced. These tightened up conditions on the assets they could hold and also stipulated that a minimum 10% of any fund must have daily liquidity to meet redemptions and 30% must have seven-day liquidity. In Europe,

What are money market funds?

MMFs first appeared in the US in 1971, when the Reserve Primary Fund was set up. These funds invest in a range of short-term debt securities issued by governments and government agencies, banks (certificates of deposit) and companies (commercial paper). There are three main types of fund: treasury funds that hold only government bills, government funds that hold securities issued by governments as well as other state agencies, and prime funds that can also hold bank and commercial debt. These funds offer investors the right to withdraw their money on demand and aim to provide a better rate of interest than an equivalent bank deposit account.

MMFs are regulated under rules set out in the US in 1983, while in Europe these funds are governed by the UCITS directives. Members of the UK-based IMMFA follow a code of practice that has very similar provisions to the US rules. These are mutual or open-ended funds, meaning that investors buy units in them, which are priced at a fixed value of $1 – the constant NAV. Under the current rules, MMFs cannot hold any asset with a maturity greater than 397 days and most of their assets are of far shorter durations. There are strict conditions on the credit rating of the assets that funds are allowed to buy. Unlike banks, MMFs do not employ leverage.

Who invests in MMFs and why?

Governments, financial institutions, companies and pension funds all use MMFs as a way to manage their surplus cash. This can be invested in the funds to create a return but is available on demand, for example to pay salaries or pensions. In recent years, corporate treasurers have increasingly used MMFs to avoid putting all their money into the banking system, which some regard as too risky, given that their deposits are not insured. As an alternative, they use MMFs to diversify their risks and gain exposure to a variety of borrowers.

In the US, retail investors have historically put large sums into MMFs, although this is much less common in the UK – even though UCITS funds can be marketed to retail investors.

What are the risks?

Aside from the systemic threats that regulators are now grappling with, investors in MMFs face a number of other risks. Although there is very little interest-rate or inflation risk in MMFs because the debt has such a short duration, there will be credit risk in prime funds because they hold bank and commercial paper that in theory could default. There is also a degree of liquidity risk – investors may not be able to redeem their units immediately if there is a collective rush to sell and redemptions have to be suspended. Finally, investors face a degree of counterparty risk, since they cannot be certain that a stressed fund will be rescued by its sponsor.

Illustration: Neil Webb for Debut Art

IMMFA members now adhere to voluntary limits of 10% daily liquidity and 20% weekly.

At the time the new US rules were introduced, Mary Schapiro, Chairman of the industry's main regulator, the Securities and Exchange Commission (SEC), called them "an important step – but just a first step" in bringing greater regulatory oversight to the MMF industry.

Value judgments

Several issues about these funds continue to trouble regulators. First, they fear that fixed, or constant, NAVs make MMFs more susceptible to runs when markets become stressed and the risk increases that the asset value might fall below $1. So one proposal considered by the SEC was that all MMFs should move to a variable NAV, calculated daily by marking the value of their portfolio to market.

Second, regulators are concerned that, unlike banks, MMFs do not have to hold a cushion of capital to meet sudden withdrawals. A second proposal therefore suggested that the funds could keep a fixed NAV, but would also have to hold a minimum capital buffer and impose a 3% levy on redemption proceeds for 30 days. This levy would be next in line to absorb losses if the capital buffer were exhausted.

There was another feature of MMFs that sat uneasily with regulators. Although the funds are notionally independent corporate entities, many of them have large banks and insurers as their sponsors. While sponsors are under no legal obligation to rescue a fund in the event of a problem, they have tended to step in quietly when necessary to prevent damage to their own reputations. Research by the Federal Reserve Bank of Boston found that "at least 21 [US] prime money market mutual funds would have broken the buck, absent a single identified support instance during the most recent financial crisis". This can involve either the sponsor putting cash into the fund or buying impaired securities from it at face value.

> ***With regulations unclear, the fixed NAV – one of the few 'knowns' in the MMF industry – is at serious risk***

Last June, the European Systemic Risk Board (ESRB) said that "uncertainty about availability of support ... may have fuelled runs" on MMFs because such support was expected but not guaranteed. The ESRB also warned of the contagion risks for sponsoring banks if the size of a required bailout exhausted its own capital and triggered a panic among retail customers. In Europe, says Susan Hindle Barone, IMMFA Secretary General, "there's a lot of discussion around right now about whether you should ban sponsor support". The idea has backing from some MMF managers because it would make clear that investors in these funds are responsible for evaluating the risks for themselves.

Then, last August, after months of consultation, Mary Schapiro suddenly announced that the SEC would not publish proposals for new regulations of MMFs because they did not have the support of a majority of her fellow commissioners.

Fresh proposals

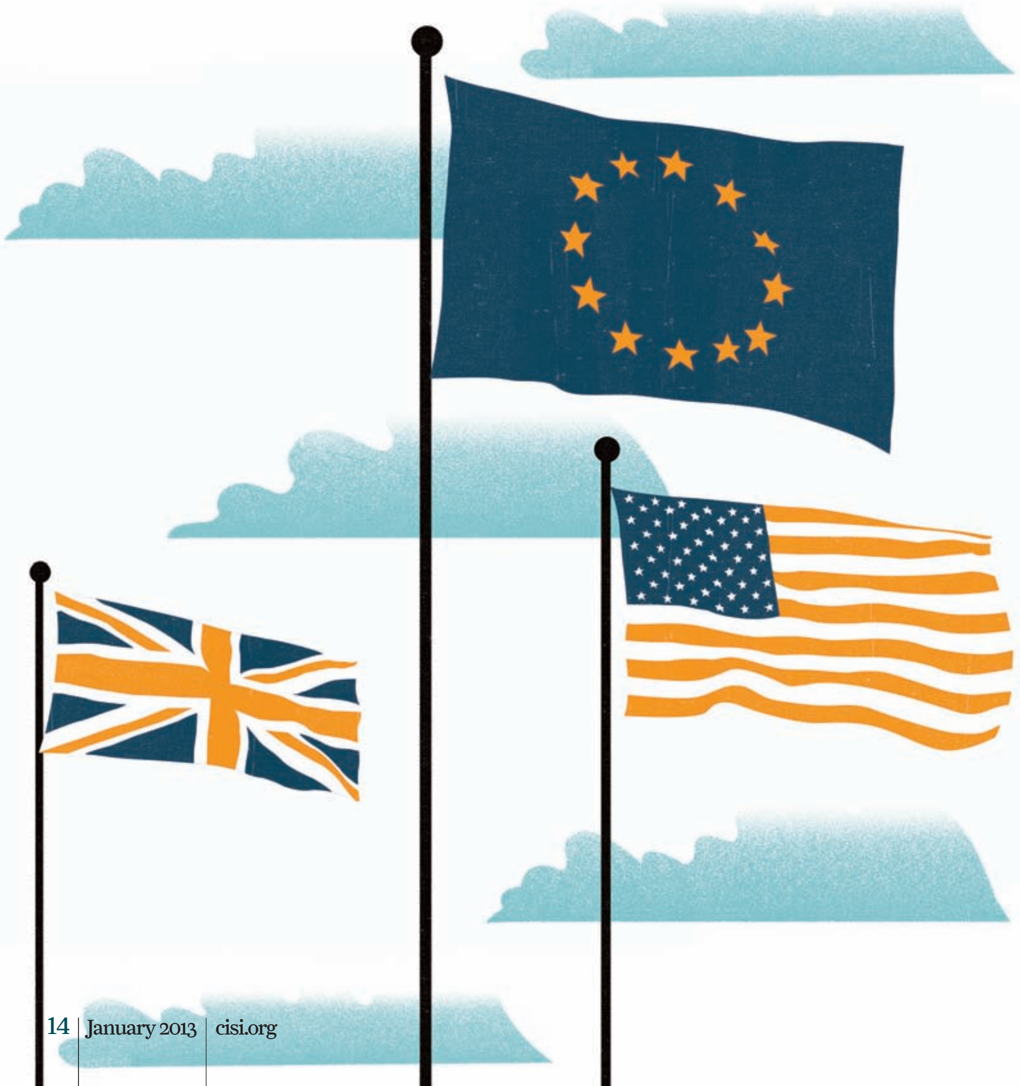
Since then, other regulators have moved swiftly to the forefront. In the US, Treasury Secretary Tim Geithner proposed 'gating', under which redemptions could be temporarily suspended to prevent runs, along with capital buffers, enhanced liquidity rules or liquidity fees on redemptions. In October 2012, the International Organization of Securities Commissions, which was asked to put forward recommendations by the Financial Stability Board, made 15 suggestions. The most controversial of these was that "regulators should require, where workable, a conversion to floating/variable NAV".

Hindle Barone says the IMMFA also expects fresh regulatory proposals from the European authorities, probably via updates to the UCITS directives.

The IMMFA is strongly opposed to any imposition of capital requirements, arguing that MMF managers make such slender margins that it would take years to accumulate a large enough cushion and that the need to hold so much capital would render the business inherently unprofitable.

It also strongly opposes any move away from fixed NAVs, which all its member funds have. Hindle Barone says that the fixed NAV is important to investors in MMFs because in many jurisdictions it enables them to treat returns as income rather than capital gains. Equally, Martin O'Donovan at the ACT says corporate treasurers are "totally wedded" to the idea of fixed NAVs because it allows them to account for their holdings in MMFs as if they were cash – hence the reference to "cash and cash equivalents" on corporate balance sheets. Any change to the fixed-NAV regime would force companies to reclassify investments in MMFs as securities holdings. O'Donovan argues that treasurers should recognise that MMFs carry a degree of risk and that a NAV will, in practice, fluctuate, even if it is always stated as £1, €1 or $1.

With the final shape of regulations still unclear, the fixed NAV – historically, one of the few 'knowns' in the MMF industry – remains at serious risk. ■



Getting engaged

Everyone seems to agree that shareholders should have a role in promoting long-term decision-making at the UK's largest firms. How to achieve this is far more complicated, says **Ian Lewis**

THE KAY REVIEW, published in July 2012, is the latest in a series of UK Government-commissioned reports to call for greater shareholder engagement to thereby encourage longer-term thinking in corporate strategy. However, the financial community is divided on how good, effective long-term strategies can be best achieved.

The review, by leading UK economist John Kay, recommends several measures to achieve increased engagement to improve the long-term performance of UK-quoted firms. Many focus on encouraging a longer-term approach by institutional investors.

So much for the theory. "The Kay Review has provided an extremely good diagnosis, but the problem is what you then do to change things," says Lindsay Tomlinson, former Chairman and current Director of the National Association of Pension Funds (NAPF).

The Kay Review

Selected recommendations to promote long-term shareholder engagement:

- expand the Financial Reporting Council's UK Stewardship Code to include strategic issues as well as questions of corporate governance
- company directors, asset managers and asset holders should adopt Good Practice Statements that promote stewardship and long-term decision-making
- an investors' forum should be established to facilitate collective engagement by investors in UK companies
- companies should consult their major long-term investors about important board appointments
- companies should seek to disengage from the process of managing short-term earnings expectations and announcements
- mandatory quarterly reporting obligations should be removed
- asset management firms should structure managers' pay to incentivise long-term performance through an interest in the fund.

To download a copy of the Kay Review, visit tinyurl.com/blq9pv6

Stick...

Kay's suggestion to increase the emphasis of the Financial Reporting Council's UK Stewardship Code on long-term decision-making would be a practical start, since UK-authorised asset managers must either comply with the code, or explain why they do not.

Few are likely to avoid complying, says Tomlinson: "There is now a general acceptance that the investment community as a whole ought to be trying to act to improve the way companies are run through stewardship."

But there are potential pitfalls in encouraging greater institutional shareholder involvement in long-term corporate strategy. The first concerns competence and willingness.

"Asset managers aren't going to dictate the direction that a company is going to take – that's for the board and management to decide," says Liz Murrall, Director of Corporate Governance and Reporting at the Investment Management Association (IMA).

The second sticking point is that more engagement by short-term shareholders would make matters worse. Or, in the words of the late American management guru Peter Drucker, in his 1993 book *Post-Capitalist Society*: "Long-term results cannot be achieved by piling short-term results on short-term results."

In his report, Kay describes the havoc heaped on once-great UK conglomerates ICI and GEC from financial strategies developed in response to stock market pressure on management to boost shorter-term returns. Indeed, even supposed long-term investors can get things wrong. Tomlinson believes that better engagement by shareholders would have done little to redirect the crash course of UK banks before the financial crisis.

"Investors were whipped up with the same fever everybody else had," he notes.

Last year's shareholder spring included successful attempts by frustrated shareholders to vote down unpopular remuneration packages at the AGMs of some of the UK's largest firms. The uprising has increased the readiness of shareholders to act and, as a result, the willingness of companies to listen. "There has always been a core of institutional asset managers that engaged with companies, but the shareholder spring arose as not all companies necessarily listened," says the IMA's Murrall.

She says the current political and media focus on corporate governance has sharpened interest in constructive dialogue on both sides, with clients now demanding that asset managers become more engaged with companies. "The [investment] industry has clearly shown that it can step up to the plate. Pressure from clients will ensure it will continue to do so," she adds.

But structural difficulties in investment management will make long-standing reform difficult. John C Bogle, founder of US-based fund manager Vanguard Group, believes that the trend towards greater intermediation has made responsible shareholder engagement almost impossible. Talking of long-term institutional investors, Bogle wrote in a recent article for the *Financial Times* that "a profession that focused on stewardship and investment

PHOTO: GETTY

management has become a business focused on salesmanship.

"Governance activism attracts attention and controversy and has no marketing value. It probably has negative value, impeding the asset-gathering goals that money managers hold pre-eminent."

...or carrot?

If Bogle is right, then changes to the UK Stewardship Code won't do much to shift the obstacles to better engagement. Financial incentives might be an alternative.

"You can't rely on exhorting people to do more, or on codes of practice," says Tom Powdrill, Head of Communications at Pensions Investment Research Consultants (PIRC), which advises a number of major clients in the pensions industry on governance issues.

"We've been through this several times before. If you really want to bring about change, you've got to tilt the playing field quite significantly, making it financially advantageous to stick with a company for the long term."

PIRC has mooted the idea of paying investors an extra dividend if they hold shares for a long period, as well as restricting voting on mergers and acquisitions decisions to investors that have held shares for longer than a given time. But this strikes at a fundamental principle at the heart of share ownership in the UK: that shareholders should be treated equally.

Giving long-term shareholders more influence over management decisions at investee companies could draw criticism from both sides. Small groups of influential shareholders may feel other short-term investors are getting a free ride on the back of their efforts to advise a company. Meanwhile, short-term shareholders – or those with smaller stakes – may feel they are being cut out of decision-making, even though their opinions are equally valid.

He who pays the piper

Kay recommends an investors' forum comprising leading asset managers to co-ordinate strategies of engagement. But PIRC believes the focus should be on asset owners, such as pension funds, rather than asset managers. The latter are often employed by the very companies whose stock they invest in, and so may be reluctant to make a stand over difficult issues. "We don't think it will work if you build it around asset managers. Asset owners – principally pension funds – will have to drive it," says Powdrill.

Co-ordinated efforts by shareholders also run up against the problem of mutual suspicion. "With any more than three, it's unlikely to be productive, because no one will be open," says an industry official and former investment banker, who wished not to be named.

One nation governance?

Improving shareholder engagement looks extra tough when you consider how much equity in UK-listed firms is held abroad. "If you want to have a decisive impact on the way companies are run, you need to get sovereign wealth funds and foreign investors on side, as well as the UK investors," says Tomlinson. That could be a challenge, given differing investment cultures around the world. Sovereign wealth funds, for example, have traditionally been reluctant to engage in public pressure on firms' management.

The truth is that overhauling corporate governance to provide a better platform for the long-term health of large UK firms will be difficult. Even with rules, instead of guidelines, it will rely on changing attitudes to long-term collaboration on both sides of the fence.

"Everybody is looking for a single magic bullet that will change things, but that's probably unlikely," Tomlinson says. "You need to change the way people do things progressively over time. Investors have to think more about the fact they are investing in jobs and livelihoods, while boards have to realise, as they generally do now, that they are accountable to these shareholders." ■

Scottish protectorate

Hugo Cox talks to Sir David Tweedie, President of the Institute of Chartered Accountants of Scotland

IT IS FAIR to say that few accountants enter the profession to put themselves in the limelight. But they found themselves centre stage during the financial crisis as the sector came under intense scrutiny. This was at its most severe in the immediate aftermath – with widespread incredulity that the world's leading banks could have suffered such catastrophe just months after sailing through their annual audits. As the dust settled, the more substantive criticisms stuck, such as major audits being conducted by firms that also relied on the same clients for lucrative advisory work in tax and consulting.

Regulators around the world have responded through legislation. The European Commission, for instance, is considering forcing companies to rotate their audit firms to limit the sort of cosy relationships that tempt auditors to sign off questionable practices. Segregation of auditing practices from non-auditing services, such as tax and consulting, is also a possibility. Beyond Europe there are widespread calls for greater scepticism in auditors' scrutiny of company accounts.

As head of the International Accounting Standards Board (IASB) until June 2011, Sir David Tweedie steered the profession first through its frenetic buffeting following the collapse of Lehman Brothers and then through

CV snapshot

2012 – Becomes President of the Institute of Chartered Accountants of Scotland

2001 – Becomes Chairman of the International Accounting Standards Board

1994 – Gains a knighthood

1990 – Joins the Accounting Standards Board as Chairman

1987 – Appointed National Technical Partner of KPMG Peat Marwick McLintock

1982 – Appointed National Research Partner at KMG Thomson McLintock

1978 – Joins the Institute of Chartered Accountants of Scotland as Technical Director

1972 – Becomes a Chartered Accountant

1969 – Completes a PhD in Management and Incomes Policy at the University of Edinburgh

1966 – Earns Bachelor of Commerce degree from the University of Edinburgh the steadier campaign for change fought by the European Commission and the Financial Stability Board. In this, the Scotsman's dry wit has provided more than one amusing moment. When a combative interviewer from the BBC World Service suggested that he should be held personally liable for the financial crisis, he surprised the interviewer by agreeing.

At the end of a long charge sheet for which he implausibly took responsibility – irresponsible lending to American homebuyers, lax due diligence by rating agencies, inadequate oversight by major financial regulators – the ruffled interviewer interjected: "For the sake of our overseas listeners, that was Scottish irony."

This combative resilience is part of Sir David's character. Yet it has likely been strengthened by the fact that sticking to the principles of his profession has cost him in the past as he established himself at the heart of KPMG's London practice.

"We used to have a saying: 'If it was immoral in Edinburgh, it was frowned upon in the Midlands and it was considered damn good business in the City of London'," he says.

The substance of this aphorism was most visible to Sir David during the 1980s – a period during which the battle with overbearing investment banks led him several times to consider quitting the profession. These were the City's boom years, when bankers routinely squeezed accounting firms for creative schemes to get assets off their balance sheets. In his words, the City had "got totally out of control".

"The banks would take a new scheme to two of the eight major accounting firms to get it accepted. At that point they would get the lawyers in, who would tell you that the scheme was now 'accepted practice' and you had to sign it off," Tweedie adds.

It was a "creeping crumple" as successive firms caved in to pressure from their investment bankers. "You'll never beat us," said a banker at one point to Sir David, then National Technical Partner at KPMG.

Taking on the lawyers

Hope came in the form of Sir Ron Dearing. Commissioned by the government to undertake a review of how accounting standards were set, he recommended establishing the Accounting Standards Board (ASB). Sir David was appointed its first Chairman in 1991. Dearing also recommended the creation of the Financial Reporting Review Panel (FRRP) to clear all major firms' accounts for unsatisfactory interpretations of the standards. It comprised representatives from major accounting firms, the UK's largest companies and several lawyers. The FRRP would request that unsatisfactory accounts be withdrawn and re-issued.

The process turned the tables on the banks' bullying lawyers. Since the taskforce was staffed by senior accountants, its decisions comprised a rival version of 'accepted practice'. There was an appeal process, but Dearing's masterstroke was to heighten the personal stakes for those involved. If the appeal judge ruled against the firm, both the legal costs and those of reissuing the accounts were borne by the firm's directors.

"Ron Dearing was a genius: the lawyers advised dissenting firms that they would win on legal technicalities, in which case the *Financial Times* would tear them apart," he says.

> ***There was not a single appeal in the period that Sir David spent as Chairman of the ASB***

There was not a single appeal in the period that Sir David chaired the ASB. His tenure, which earned him a knighthood, saw a widespread tightening of standards following scandals including that surrounding Robert Maxwell. KPMG's dogged traditionalist had won the battle.

In crisis

Sir David would battle again as the financial crisis raged, and detractors argued that the practice of fair-value accounting – which involves estimating a current market price for financial assets – was undervaluing bank assets and so entrenching the crisis. The European Commission recommended a shift to cost accounting, which would replace tracking the changing value of assets with simply recording their price when purchased. "The market would have imploded; all credibility in the profession would have been lost," says Sir David. He dug in his heels, was briefly pilloried and then prevailed.

Now 68, you sense he has a few more fights in him still. He shares his humour and resilience, he says, with Paul Volcker. Volcker appointed Sir David to his ten-year stint as the first Chairman of the IASB in 2001. Sir David says Volcker, a leading economist who was Chairman of the US Federal Reserve until 2011, will be "totally unruffled" by current industry criticism for the seemingly impractical Volcker rule (designed to limit the proprietary trading operations of US banks).

The focus of Sir David's next act of dogged resistance may be tax avoidance. In a recent address posted on the website of the Institute of Chartered Accountants of Scotland (of which he became President in 2012) he compares the sacrifice of World War II bomber crews to the "smart-Alec schemes [that] bring the profession into disrepute", allowing the very rich to avoid contributing to the society those airmen died to protect. If he launches a campaign, tax avoiders can look forward to entertaining radio interviews as well as tough action. ■

Border reformist

Despite defending the practice of the profession before and during the crisis, Sir David believes current reporting practices are inadequate. Much of the fault lies with the paucity of disclosure; he believes that the key to improvement is the audit report.

To improve the standard pass-fail opinions visible in the audit at the back of financial statements, there should be a list of the key assumptions that the company has used in preparing its accounts, he says. This would provide auditors with the role of adding to the information that they have told the company already.

Sir David points to an example given by the US Public Company Accounting Oversight Board. A major firm that had benefited from TARP (the US government programme to purchase assets and equity from America's troubled financial firms) saw annual audit costs rise from $119m in 2008 to $193m a year later. But the audited accounts were virtually identical. "Where was all the extra effort?" asks Sir David. "Ultimately it is investors who want to see it."

How can regulators provide auditors with the confidence they need to be more vocal about firms' accounting assumptions and more ready to voice their concerns? The solution for Sir David is to replace the current annual reappointment process with a guaranteed tenure for the next agreed period for re-tendering (ten years is the recommendation of the Financial Reporting Council (FRC) for UK companies listed in the FTSE 350).

More granular reforms will also help. Sir David is supportive of proponents of confidence accounting. The movement, which has attracted praise from Andrew Haldane, Executive Director for Financial Stability at the Bank of England, advocates complementing the single numbers in company reports with numerical ranges. Proponents suggest this would more accurately reflect the uncertainties contained in preparing accounts and so bring risk-based auditing in line with the probabilistic measures characteristic of a more scientific approach.

Directors and auditors, meanwhile, should provide more evidence to support their judgments about the status of going concern. In only two of the ten largest corporate bankruptcies following the financial crisis had auditors expressed doubts in their reports. Again, with the FRC, Sir David believes that considerations made by directors and reviewed by auditors should cover both solvency and liquidity, and should include a prudent view of future prospects.

Mark of respect

Mark Carney, who will become the Bank of England's new Governor in July 2013, is lauded as the saviour of Canada. Is this true, and what will he bring to the UK? **Dan Barnes** investigates

"ONLY SUPERHUMANS NEED APPLY," quipped Shadow Chancellor Ed Balls in April 2012 on the search for a new Bank of England (BoE) chief. From some of the recent media coverage about Mark Carney, who since 2008 has served as Governor of the Bank of Canada (BoC), you would think the BoE has its man.

Certainly Canada weathered the financial crisis well by comparison with other major economies, despite being heavily exposed to the US. "Carney's reputation has been significantly enhanced by his oversight of the Canadian economy and banking system prior to, and since, the financial crisis," said Nick Bate, an economist for Bank of America Merrill Lynch, in a note issued on 27 November 2012.

But a stronger economic system and a more resilient banking sector were as important as Carney's stewardship, as Craig Wright, Chief Economist at the Royal Bank of Canada, admits: "Governor Carney's challenge was significant as the challenge was around the globe, but the fundamentals were much better in Canada's case."

A fiscal crisis in the 1990s had meant tight interest rates and historically low inflation, which averaged 2% for 20 years. The banking system, meanwhile, was structurally more sound than its peers in the US or the UK. After the collapse of several small regional Canadian banks in the 1980s, it was strengthened through rigorous financial reforms. Risk was no less concentrated than in the UK – Canada's largest five banks account for 87% of lending according to *The Economist* – and the market would have been even more concentrated had some banks not been blocked from major mergers in the late 1990s. The regulators also stepped in to control mushrooming balance sheets by requiring that banks remained focused on domestic business and shoring up mortgage lending.

So Carney inherited an economy and a banking system in better shape at the start of the crisis. Yet he made some good choices during the storm, being praised by Wright for a "pragmatic, flexible approach to monetary policy with a twist of innovation". Interest rates were cut aggressively and, when more stimulus was required, Carney innovated with a pledge of "conditional commitment" early in 2009 – keeping interest rates lower over a defined period as long as the economy performed in line with forecasts. (He looked at quantitative easing in 2009 but never deemed it necessary.)

This kept government borrowing at an affordable level. "Two-year yields came down because the market had not been pricing in as long a period of low rates," says Avery Shenfeld, Chief Economist at Canadian Imperial Bank of Commerce.

While in the UK the BoE prevaricated over ailing banks – most notably Northern Rock – Carney, Shenfeld claims, grasped the nettle (although the BoC has no direct supervisory role, it can make suggestions). "In part we didn't have [bank blow-ups] because we made tough decisions in a timely fashion," he told Reuters on 11 December 2012.

Carney also focused intervention where it was most needed. "We needed to contain household debt at the margin. So he pressed the Government to tighten rules on mortgage insurance to reduce the scale of mortgage borrowing," says Shenfeld. In Canada, all mortgages based on deposits that are less than a fifth of the home's value must be insured with the Government.

The upshot of Carney's intervention is that its effects should outlast his tenure, unlike those of other once-lauded central bankers.

"I don't think we will be rewriting the history books when he has gone, as happened with Federal Reserve Chairman, Alan Greenspan," concludes Wright. Canada's household debt ratios may still be growing at 6%, he notes, but these are well down from the 12% peak rate of increase in 2011.

Regulation please

So much for monetary policy. The BoE is about to take charge of regulation, something that, as Ed Balls pointed out, most central bankers in the developed world don't have on their plate.

Here, Carney's investment-banking heritage – he spent 13 years at Goldman Sachs – may garner him some barracking from the UK press. Yet City firms will feel that he is a man they can work with and Carney is used to pressure: he reportedly endured a tirade from J.P. Morgan CEO, Jamie Dimon, at the 2011 International Monetary Fund meeting in Washington over his emphasis on stricter capital requirements for banks.

His appointment at the Financial Services Board (FSB) as Chairman reflected his efforts to lead the global regulatory agenda. In a speech in November 2011 he attributed his appointment to "the strong reputation of Canada's financial system and the leading role that Canada has played in helping to develop many of the most important international reforms".

Carney's experience at the FSB will certainly be useful. The role has required concerted efforts to nudge regulators around the world into tighter supervisions of their banks, for example through ensuring that they keep larger amounts of capital in reserve, in accordance with the Basel III rules. Last November, the FSB published its second list of 29 systemically important financial institutions – banks considered sufficiently large and interconnected that their failure could cripple the global economy. He has now set his sights on the "systemically important non-bank financial entities", such as money market funds, the regulation of which appears essential to shoring up global financial stability (as examined on pages 12-14).

Carney's relationships with global regulators will prove valuable. The UK looks likely to be sidelined when it comes to banking regulation in Europe: it will almost certainly remain outside of EU-wide banking regulation.

Career highlights

2008 – Becomes Governor of the Bank of Canada
2004 – Becomes Senior Associate Deputy Minister at the Canadian Department of Finance
2003 – Leaves Goldman Sachs to become Deputy Governor of the Bank of Canada in August 2003
1995 – Earns a doctorate in Economics from Oxford University
1990 – Joins Goldman Sachs, the start of a 13-year career that saw him based in its London, Tokyo, New York and Toronto offices
1988 – Received a Bachelor's degree in Economics from Harvard University

Carney's experience also touches on regulation. The BoC is not a regulator (banks are supervised at a federal level by a series of regional regulators), but it plays a monitoring role. It publishes the *Financial System Review*, which points out weaknesses in the financial system to local regulators and market players. Carney has logged successful interventions, too, explains Shenfeld. "He has been an advocate for some of the changes that were made to mortgage insurance rules to try to quell what looked to be a housing bubble driven by the low interest rates needed to support this recovery," he says.

Speaking to the Canadian Auto Workers union in August, Carney said: "Canada learned during the last crisis that having our own house in order is not enough. We need others to raise their game. That is why the FSB is increasingly focused on timely and consistent implementation of agreed reforms. We will identify those who drag their feet or bend the rules and hold them to account."

Cultural show?

His biggest challenge may be cultural. The BoE sings entirely to the tune of current Governor, Sir Mervyn King, from the way the Bank fulfils its inflation-targeting mandate to sponsoring the present Government's fiscal approach.

Its internal organisation is facing major challenges from Parliament. The Treasury Select Committee (TSC) continues to campaign for greater accountability at a body with huge power and no elected head.

Carney has a "pragmatic, flexible approach to monetary policy with a twist of innovation"

If the TSC has concerns that Carney's activist approach might take him beyond his remit, it may be alarmed at his comments early in December 2012 that adopting targets for GDP, rather than interest rates, might be better if low interest rates do not work.

Carney will also have to address the charge that the BoE is autocratic. "The criticism, which is accepted internally to varying degrees, is that its own internal structure has not always promoted a diversity of views that would put it in a good position to make policy decisions. Responsibilities are changing and he will oversee a change in the culture of the institution," says Malcolm Barr, Head of UK Economic Research at J.P. Morgan.

Carney will need to work hard to retain the services of Paul Tucker, Deputy Governor for Financial Stability, who is a key asset. Tucker was favourite to become the Bank's next Governor. A disappointed Tucker may be more tempted by other challenges and it would be unfortunate if Carney's first unwitting impact on the BoE was to deprive it of one of its longest serving and most valuable deputies. ■

PHOTO: GETTY

With a new Bank of England Governor and a new regulatory regime, what is in store for Britain in this year of change? **George Littlejohn MCSI** provides his view

Twin peaks comes of age

IN OCTOBER 2012, the UK's FSA released details of the approaches to be taken by two new bodies, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The new twin peaks model means that major investment firms, deposit takers and insurers will have two groups of supervisors – one focusing on prudential matters (the PRA) and one on conduct (the FCA). All other firms (for instance, those that are not dual regulated) will be solely supervised by the FCA.

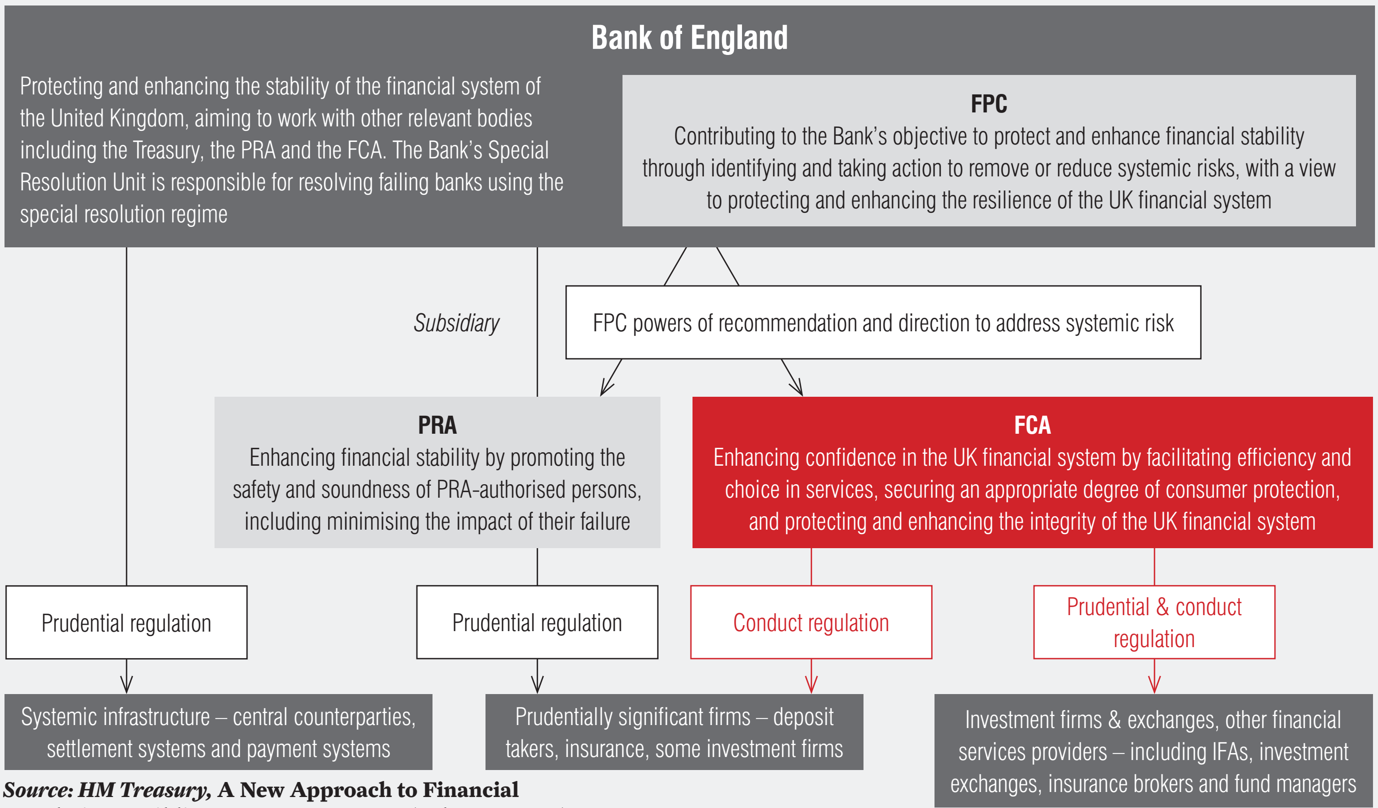
Under the incoming Governor, Mark Carney, the Bank of England will have significantly broader regulatory powers, wielded by a newly formed Financial Policy Committee working inside the Bank and headed by Carney himself. The aim is to help sniff out early warning signals of an impending crisis, such as the excessive borrowing and risk-taking by banks in 2007 that were missed.

The new system still has powerful opponents. FSA Chairman, Lord Turner, and Andrew Bailey, who will head the PRA, told the cross-party Parliamentary Commission on Banking Standards in November 2012 that they had seen "deep-set problems in the banking industry" and warned of a "powerful banking lobby". Bailey said: "The PRA's powers could increase capital ratios and the idea has a lot of merit to it, but it is like nuclear warfare – the deterrent has to have meaning." Lobbying by the banking industry – which some have described as "corrosive" – is intense.

Martin Wheatley, Managing Director of the FSA and CEO-designate of the new FCA, with which CISI members will have most contact, speaks of the need "to restore the traditional values of banking: honesty, trust and putting the customer first. People sense that the culture in banks has shifted. We all need to work together to put this right. I want to work with [the industry] to achieve a lasting and sustainable restoration of what has been lost."

The law that establishes the new regulatory structure gives the FCA the strategic objective

Roles of the bodies in the new regulatory architecture



***Source:* *HM Treasury*, A New Approach to Financial Regulation: Building a Stronger System (February 2011)**

New product challenges

- Products will need to be tested before launch to ensure they meet customer expectations.
- All products should be regularly monitored using a holistic range of management information to ensure they remain suitable and consistently deliver good customer outcomes.
- Firms will need to have robust controls to ensure that promotions are compliant yet commercially effective and are in line with the expectations of the FCA and the approach of peer firms. Staff responsible for approving promotions must have the right capabilities and competence to ensure promotions are compliant.
- The regulator has given little guidance on new media but firms will need to be proactive in ensuring that communications made via such platforms (for example, Twitter or Facebook) are compliant.
- Firms should conduct risk assessments to ensure that existing products will not be seen as taking advantage of customers, and can be demonstrated to provide value and benefit.
- Firms should be able to show that their end-to-end sales process is not only compliant with the letter of the rules, but is also designed and operated in a way that minimises the risk of customer detriment through appropriate controls against inappropriate behaviours.

Source: KPMG, Twin-peaks Regulation: Key Changes and Challenges (November 2012)

of making markets work well. It will also give it three operational objectives: to protect consumers, to promote competition and to enhance market integrity.

Martin Wheatley

On consumer protection, Wheatley says the FCA will "proactively study the financial marketplace and what it delivers to consumers so that we can confidently assess and challenge the conduct of the firms we regulate. We will help to protect consumers by understanding their needs and learning as much as possible from them about the financial issues affecting their lives. This means more focus on how real people behave in the real world. It is looking at the pressures that influence their decisions and behaviour when it comes to choosing financial products and services."

The Financial Services Bill gives the FCA enhanced tools so it can deliver on this promise – notably new powers of intervention over products and services to help ensure that the products that firms offer meet the needs of consumers (see box, 'New product challenges'). These are already proving contentious in the industry, with the banks' well-oiled lobbying machine attempting to maintain the status quo where it can.

Competition and integrity

For the first time, the FCA will have an active and specific objective on competition, with a view to improving efficiency and innovation. The FCA believes it will bring better-quality products and more choice, while acting as a brake on charging – which it can cap. It is difficult, Wheatley believes, to make abnormal profits in a competitive market, as other entrants will always come into the industry, adding to choice.

Competition is complex. The FCA says it will not be "in the business of creating a climate hostile to market growth, innovation or a healthy return for shareholders." But it will draw the line when returns are generated at an "unacceptable cost" to the customer – or "by endangering the integrity of the wider market."

Indeed, market integrity is the third pillar of the new FCA approach. Wheatley says: "To ensure that the relevant markets work well, we will increase our focus on delivering good market conduct. When we do this we will continue what has worked well at the FSA. But we will also look at a wider range of behaviour that damages trust in the integrity of markets or threatens consumer protection. The FCA will have a renewed focus on wholesale conduct. This is because we realise there is a connection between what happens in retail and wholesale markets – and the risks caused by poor wholesale conduct can be passed between them.

"The failure to properly manage the often inherent conflicts of interest in wholesale markets is a root cause of risk to two of our objectives – both market integrity and consumer protection. To enhance trust and confidence in the integrity of markets, we will take a more assertive and interventionist approach to risks caused by wholesale activities. If we need to, we will act to protect a wider range of client relationships than at present."

A new way of operating

Staff at the FCA will be expected to grasp the key issues in the firms they deal with, not least by talking to the CEOs of firms, and not just heads of compliance. Wheatley wants his people to find out "where the business is going, not simply how it is complying with a set of rules."

He says: "This needs boldness and curiosity, but it also needs judgment. Conduct regulation is different from prudential regulation – which can be more of an analytical exercise. It is about how people behave. This requires new skills, and it means that we will have to work hard to attract and retain good-quality staff." The FCA has informally made clear that it will assess firms' business models and will intervene if it considers them risky or even unviable.

The FCA's relationship with the PRA will be crucial to the success of twin peaks regulation in the UK. Both agencies will be independent, with each looking at a number of firms from a different perspective. Making this effective will come down to co-ordination between them to avoid unnecessarily increasing the workload of firms in dealing with both of them. Some larger firms are considering having separate PRA and FCA teams. Another important relationship will be with Europe. European legislation plays an increasingly important part in UK regulation, so part of the FCA's role will be to work to shape EU and global financial services conduct and regulation of markets. Its job will be to help ensure that policy drafted in Europe and at a global level works for UK consumers and firms. ■

Dual regulation is an old idea

Dr Michael Taylor

When the Centre for the Study of Financial Innovation (CSFI), then a two-year-old new kid on London's finance block, published *'Twin Peaks': A Regulatory Structure for the New Century* in 1995, it did not quite match the cult status of David Lynch's television serial of the same namea few years earlier. Now, though, 18 years later, with the CSFI firmly established as a force in the world of finance, the grand plan promulgated by Dr Michael Taylor, the author of the report, has come of age in Britain and elsewhere.

Taylor, now at the Financial Stability Board (FSB) in Basel – whose Chairman, Mark Carney, will become Governor of the Bank of England in the summer – was then lecturing at London Guildhall University. Taylor followed the CSFI report two years later with a well-received book, *Regulatory Leviathan: Will Super-SIB Work?* It elaborated on his ideas about financial regulation and dwelt on the problems that a single regulator would cause in financial services. At the time, the regulatory establishment railed against the ideas and the prophetic Taylor plumped for a career abroad, latterly as a highly regarded adviser to the Governor of the Central Bank of Bahrain and now, for the past year, at the heart of financial stability in Switzerland.

Martin Wheatley will be speaking to CISI members across the UK, and the rest of the world by webcast, from London's BT Tower on 14 March. For information, please visit cisi.org

George Littlejohn MCSI is a senior adviser at the CISI.

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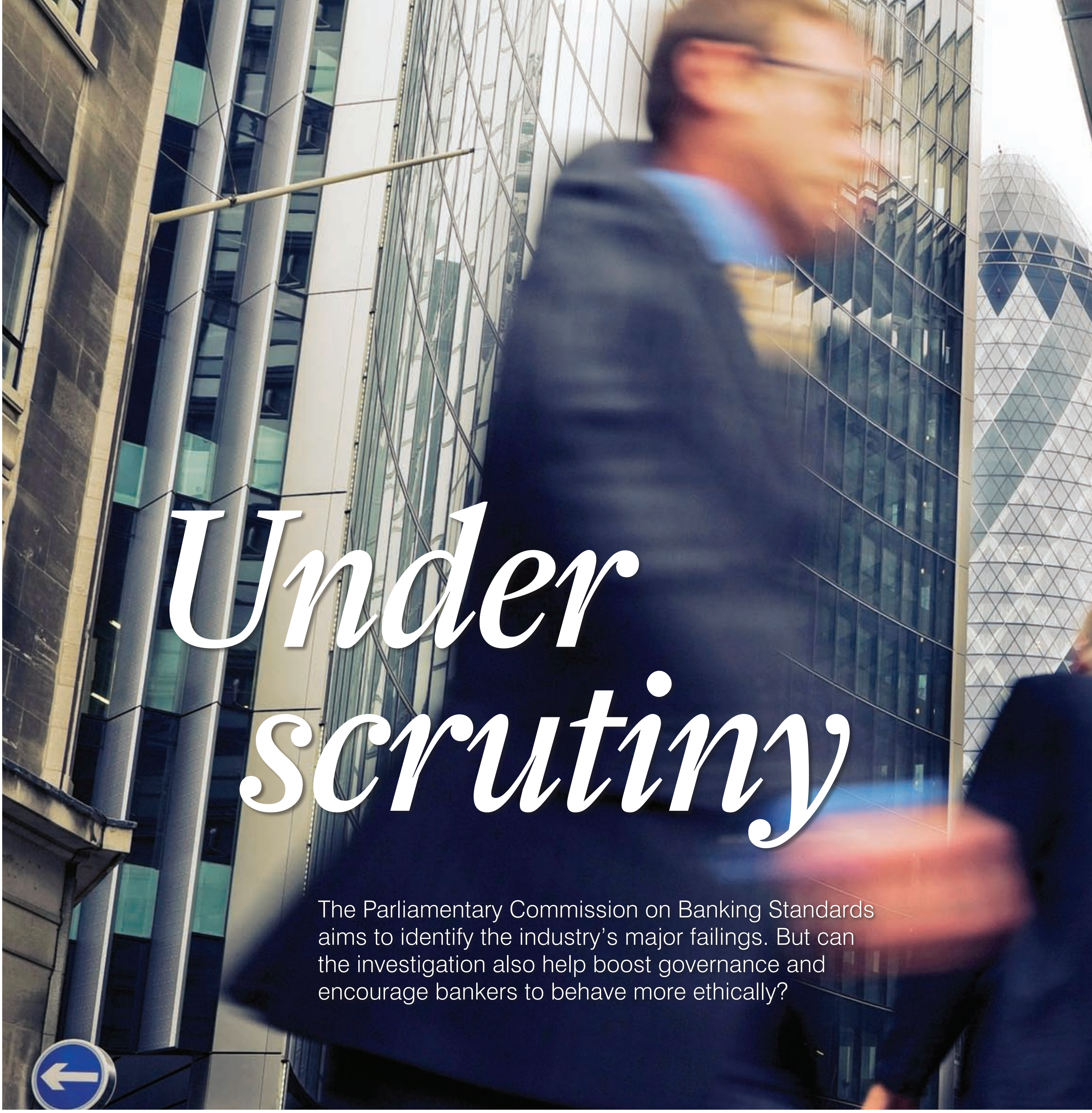


Under scrutiny

The Parliamentary Commission on Banking Standards aims to identify the industry's major failings. But can the investigation also help boost governance and encourage bankers to behave more ethically?

THE TYRIE COMMISSION, which was established by the Government in the wake of the LIBOR scandal, has a wide remit in terms of the questions to which it seeks answers. Consequently, it is unlikely that any concerns or queries will go unnoticed. As you might expect, written responses to the commission have been plentiful, particularly from organisations that have been vocal in their criticism of the banking industry. Additionally, the commission has established a number of sub-committees and is receiving plentiful oral evidence from many of those involved, across the whole spectrum.

It is understandable that readers might ask why the *S&IR*, a publication produced for members of the securities and investment industry, is concerning itself with possible action within or against the banking industry. The answer is simple: we are inextricably linked to the banking sector by many members of the public and, thus, deemed guilty by association.

The commission regularly publishes people's submissions, including oral evidence, a review of which reveals some interesting points. For example, a panel on consumers' and SMEs' experiences of dealing with banks discussed the FSA's Treating Customers Fairly initiative. A senior banker said: "I do not come to work every morning thinking of how I can treat customers unfairly," as though a conscious decision is made.

> *In the new world of banking, who are the bankers and what regulatory framework should they be governed by?*

Similar reactions have been heard in response to CISI initiatives promoting integrity, more so now that membership increasingly requires a tangible demonstration of thought about the topic.

A discussion about whether a test, particularly in multiple-choice format, can seriously examine whether or not the candidate will act unethically misses the point. The test is not designed to make people behave more ethically, but rather encourage them to think more about the issue. Fortunately, that is the spirit in which most CISI members approach the Institute's IntegrityMatters test.

Many members have commented on how useful it is for them to be encouraged to consider whether their thoughts and ideas,

PHOTO: GETTY

actions and typical behaviour are appropriate in the environment in which they operate.

Another subject raised frequently by respondents to Tyrie is the need for greater involvement by professional bodies, with some suggesting that a new organisation for bankers may be required. But views on this are mixed, with Martin Taylor, former Chief Executive of Barclays, being cautious about the impact that professional bodies might have. "You do not make a medical profession by calling all the quacks 'doctors'," he commented, adding that such a step is not worth taking if done just for PR purposes.

Taylor's view is at odds with that of his former employer, whose submission recommended a rigorously enforced code of conduct that is backed up with a register of banking professionals. This could be operated, Barclays suggests, in co-operation with the Financial Conduct Authority and existing authorisation programmes, including approved persons and significant influence functions, which sounds reminiscent of some aspects of the Retail Distribution Review. Surprisingly, Barclays also suggested the formation of a Chartered Institute of Bankers, overlooking the fact that the firm subscribes to the Chartered Banker Institute Professional Standards Board. This board has already published an initial set of standards of professional behaviour, which Barclays staff are required to meet.

Many people making submissions have tried to determine whether banking can justifiably be called a profession – a question that one well-known firm has answered with a resounding 'no'. Therein lies one of the big difficulties: in the new world of banking, who are the bankers and what regulatory framework should they be governed by? One suggestion is that bankers should be restricted to significant influence functions (SIFs), but would that be enough? Those identified for manipulating LIBOR were, in the main, probably not SIFs, but they were significantly influential. Moreover, few of the sales forces implementing the various product missales were SIFs, but those setting their sales targets may have been.

Debate over how bankers should be governed will continue for the foreseeable future. In the meantime, predating the Tyrie Commission, but highly relevant to its brief, is a proposal discussed at an Investing in Integrity event hosted by the Lord Mayor of the City of London in October 2012. It was suggested that, rather than starting from scratch, we should build on the existing structures of professional bodies that already exist, including the CISI and the Chartered Banker Institute. This has given rise to a proposal that all professional bodies, whose members are employed in the financial services industry, should be subject to an overarching independent body. This is somewhat comparable to the Financial Reporting Council (FRC) and its relationship to the accountancy bodies.

If the proposal comes into effect, it is envisaged that the FRC will act as an appeal court in the disciplinary process of professional bodies. The FRC would be responsible for confirming or varying the sanctions – being 'struck off' the register, for example – imposed by those professional bodies on individuals.

It would also:

- maintain a public register of individuals who subscribe to an approved code of professional conduct and require them to meet relevant professional entry standards and ongoing competence standards
- work with professional bodies and monitor the implementation and enforcement of the codes of conduct
- monitor how participating bodies handle complaints that do not fall within the jurisdiction of existing restorative bodies, such as the FSA and the Financial Ombudsman Service. Complaints raised by the public or industry-related bodies would relate to individuals who fail to maintain the required standards.

The CISI advocates strongly the independent-council approach, allied to the type of engagement with professional bodies that is required under the Retail Distribution Review. As we have argued consistently, the disparity in standards (not just qualifications) between retail and wholesale is not sustainable and the Tyrie Commission provides an ideal opportunity for all parties within our industry to take the file out of the drawer marked 'too difficult'. ■

Need to read

The latest publications and study aids supporting CISI qualifications

WORKBOOK EDITION

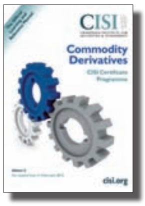
International Introduction to Securities & Investment (Arabic)

This unit – the first to be translated into Arabic by the CISI – provides an introduction to the world of financial services for people working outside the UK. It looks at the economic environment and the participants in the global financial services industry. The current edition of the *International Introduction to Securities & Investment (Arabic)* workbook (which will apply to exams until 10 January 2014) covers:

- the financial services industry
- equities
- bonds
- derivatives
- investment funds
- regulation and ethics
- other financial products.

Price: £75

WORKBOOK AND ELEARNING EDITION



Commodity Derivatives

The Certificate in Commodity Derivatives is a globally portable qualification that addresses the needs of the modern international commodity derivatives market. It has been developed with representatives from leading global financial services firms, using input from major exchanges to provide employees advising and/or dealing in commodity derivatives on behalf of professional clients with the knowledge and skills required for their job roles. The current edition of the *Commodity Derivatives* workbook and corresponding elearning product (valid for exams from 22 March 2013) covers:

- underlying commodity markets
- exchange-traded commodities futures and options
- principles of exchange-traded commodities futures and options
- trading, hedging and investment strategies
- special regulatory requirements.

Price: £100 for combined workbook and elearning product

WORKBOOK AND ELEARNING EDITION

Investment Management – Certificate Programme

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

- economics
- financial mathematics and statistics
- industry relations
- asset classes and investment strategies
- financial markets
- accounting
- portfolio management
- performance measurement.

Price: £100 for combined workbook and elearning product

WORKBOOKS AND ELEARNING EDITIONS

Investment Advice Diploma

Derivatives: The aim of this unit is to provide those advising and/or dealing in derivatives with the knowledge and skills required for their job roles.

Securities: This unit will ensure that candidates can apply the appropriate knowledge and understanding of securities, markets and related functions and administration.

FSA Regulation and Professional Integrity: The objective of this unit is to ensure that candidates can apply the appropriate knowledge and understanding of UK financial markets, regulation and ethics to financial planning, advice and management for retail customers.

Investment Management: This is the appropriate competence-based qualification targeted at investment professionals engaged in managing investments, dealing in/advising on securities or derivatives and undertaking activities as a broker fund-adviser.

Investment, Risk & Taxation: The objective of this unit is to ensure that candidates demonstrate the ability to apply the knowledge, theory and practical techniques required in order to assess a client's current financial position and future requirements, make suitable investment recommendations, monitor performance and respond appropriately to changing needs and circumstances.

Price: £100 per subject for combined workbook and elearning product

Visit cisi.org/bookshop to purchase workbooks, publications and elearning products quickly and efficiently.

ONLINE TOOL

Professional Refresher

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

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

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

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 several 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 assist with developing exams for Exchange-Traded Derivatives, Commodity Derivatives, Over-the-Counter Derivatives and Corporate Finance Technical Foundations.

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

Diary

Events to attend over the coming months

Professional courses

Venue: London unless otherwise stated

22 JANUARY Advanced Leadership Skills for Investment Seniors† £500

29 JANUARY Building a Client-Focused Professional Service for the New World† £500

31 JANUARY Anti-Money Laundering & Terrorist Financing Introductory Workshop† £500

5 FEBRUARY Anti-Money Laundering & Terrorist Financing Introductory Workshop† (Manchester) £500

6 FEBRUARY Investment Principles & Risk* (PCIAM, half day)* (Isle of Man) £300

6 FEBRUARY Investment Principles & Risk* (IAC) (Isle of Man) £500

6/7 FEBRUARY Investment Principles and Risk* (LSE) (Isle of Man) £900

12/13 FEBRUARY Understanding Regulation & Compliance† £900

14 FEBRUARY Essentials of Supervision £500

26 FEBRUARY Dealing with the Sanctions Regimes† £500

27 FEBRUARY Integrity & Trust in Financial Services† (half day) £300

5 MARCH SARs & Court Orders† £500

12 MARCH Suitability & Appropriateness: Avoid Misselling† £500

* This event fulfils the requirements for qualifications gap-fill between existing CISI exams and the new Retail Distribution Review exam standards (Jersey and Isle of Man only)

Member and Fellow discounts

Professional courses discount: Fellows 35%; Members 30%; Associates 20%.

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

To book: *cisi.org* *customersupport@cisi.org* *+44 20 7645 0777*

London CPD events

17 JANUARY Cybercrime, Cyberwar?
America Square Conference Centre, 1 America Square, 17 Crosswall, EC3

29 JANUARY Generation Y: The (Modern) World of Personal Finance
Cass Business School, 106 Bunhill Row, EC1

14 FEBRUARY Bank Strategic Asset Liability and Liquidity Risk Management – Derivatives and Fair Value Accounting†
America Square Conference Centre, 1 America Square, 17 Crosswall, EC3

19 FEBRUARY Exercising Shareholder Rights – New Trends in Shareholder Activism
Morningstar UK, 1 Oliver's Yard, 55-71 City Road, EC1

5 MARCH The Coming Power of Moscow†
BT Centre, 81 Newgate Street, EC1

7 MARCH Trends in Board Remuneration
BlackRock, Drapers Gardens, Throgmorton Avenue, EC2

7 MARCH Frontiers of Finance†
Willis, 51 Lime Street, EC3

12 MARCH Founders Series: Hector McNeil, Boost ETP
Willis, 51 Lime Street, EC3

14 MARCH The New Face of UK Regulation
Live webcast

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

To book: *cisi.org/eventscal* *+44 20 7645 0777*

Interest groups

28 JANUARY Bond Interest Group – Retail Bonds
London Stock Exchange Group, 10 Paternoster Square, London EC4

For full information or to book: *bondgroup@cisi.org*

Branch events

15 JANUARY Bank of England Update
Bristol & Bath: Brewin Dolphin, 4th floor, The Paragon, The Counterslip, Bristol

15 JANUARY The Economy and Risk Management†
Yorkshire: Aviva UK, Wellington Row, York

15 JANUARY Managing Your Career (joint event with CIOBS)
Scotland: Glasgow (TBC)

15 JANUARY Managing Your Career (joint event with CIOBS)
Scotland: Morton Fraser, Quartermile Two, 2 Lister Square, Edinburgh

16 JANUARY The Corporate Bond Market†
Guernsey: Old Government House Hotel, St Ann's Place, St Peter Port

22 JANUARY Can India Ever Turn the Corner?†
Jersey: The Royal Yacht, Weighbridge, St Helier

25 JANUARY Annual Dinner
Guernsey: Beau Sejour Leisure Centre, Amherst, St Peter Port

25 JANUARY Bank of England Update
East Midlands & Lincoln: Brewin Dolphin, Two Colton Square, Leicester

7 FEBRUARY FATCA Update†
Liverpool & North Wales: Deutsche Bank, Royal Liver Building, Pier Head, Liverpool

7 FEBRUARY Annual Dinner
Bristol, Bath & South Wales: SS Great Britain, Great Western Dockyard, Gas Ferry Road, Bristol

12 FEBRUARY Capital Gains Tax† (joint event with ACCA)
Yorkshire: DoubleTree by Hilton, Granary Wharf, 2 Wharf Approach, Leeds

28 FEBRUARY Annual Dinner
Northern Ireland: Ulster Reform Club, 4 Royal Avenue, Belfast

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

Regional roadshows

The CISI is running a series of roadshows which will help members to remain fully compliant with requirements of the Retail Distribution Review, focusing on maintaining CPD in the new regime.

29 JANUARY Newcastle, Leeds, Liverpool

30 JANUARY London

5 FEBRUARY Bournemouth

12 FEBRUARY Belfast

13 FEBRUARY Tunbridge Wells, London, Glasgow, Edinburgh

26 FEBRUARY Manchester, Birmingham

27 FEBRUARY Bristol

28 FEBRUARY Exeter

18 MARCH London

19 MARCH Leicester (with video link to Lincoln)

For further details: *cisi.org/roadshows*

RDR ANNUAL CPD

† This event meets annual CPD requirements for members affected by the Retail Distribution Review

Professional forums

Members' events

The CISI's seven professional forums are a key benefit to the Institute's members.

Covering the areas of compliance, Islamic finance, corporate finance, financial technology, operations, risk and wealth management, these discussion groups meet regularly in central London to debate current issues and hear presentations from industry speakers.

Events are generally held at midday with a light lunch provided and time to network. These sessions are free and open to Fellows, Members, Associates and Affiliate members of the Institute. Student members may attend one event of each forum annually.

Forthcoming events:

Compliance

16 January: *FSA Enforcement Action Against Senior Management and SIFs*
Speakers: Stephen Kingsley, Senior Managing Director, Economic and Financial Consulting, FTI Consulting; Sara George, Partner, Stephenson Harwood

6 March: *FCA / PRA Update – Latest Practical Advice on Preparing for the New Regime*
Speakers: David Moland, Chartered FCSI, Group Head of Compliance, Arbuthnot Latham & Co; Elizabeth Hornby MCSI, Senior Associate, Eukleia Training; Simone Porter ACSI, Managing Director, International Compliance, Charles Schwab UK

Mohammed Amin

Islamic Finance

26 February: *A Case for Rethinking Sharia Audit?*
Speaker: Mohammed Amin, Consultant

Corporate Finance

22 January: *Takeover Code: How are the Updates Being Approached?*
Speaker: Tony Pullinger, Deputy Director General, the Takeover Panel

5 March: *Dispelling the Alchemy of Cash Shells and Reverse Takeover*
Speaker: Adam Wilson, Head of International, Daniel Stewart & Co

Financial Technology

21 February: *Establishing the Right Dialogue with Your Board on Financial Technology Risk Workshop*
Speakers: Craig Kersey, Chartered FCSI, Managing Director, Guildhall Ltd; Ian Sutherland, consultant

Operations

6 February: *Operational Aspects of Client Money*
Speakers: Christopher Bond, Chartered MCSI, Senior Adviser, CISI; Robert Forbes, Chartered FCSI, Senior Manager, Back Office Operations, Jupiter Asset Management; Mike Williams, Partner, and Andrew Hagan, Manager, both Banking & Capital Markets Audit Group, Deloitte LLP

6 March: *Outsourcing: Does it Work?*
Speakers: Frank Reardon, Chartered FCSI, Head of Investment Administration, JM Finn & Co; Alistair Reid, J.P. Morgan; Chris Pickles, Head of Industry Initiatives, Global Banking and Financial Markets, BT

Risk

24 January: *Embedded and Independent Risk Functions: Are There Effectively Three Lines of Defence at Your Organisation?*
Speakers: Sophie Dupre ACSI, Risk Manager; Robert Sherlock FCSI, Senior Expertise Risk Manager, AXA Investment Managers; Mark Dougherty, Director of Risk and Internal Audit, Risk Reward Ltd

14 March: *The Problems of Risk Reporting and Governance*
Speakers: TBC

Wealth Management

15 January: *Value Investing: How Long-Distance Runners Bring Home the Medals*
Speaker: Justin Lowes, Managing Director, Lowes Wealth Management

7 February: *The Wealth Manager is Dead: Long Live the Virtual Wealth Manager*
Speaker: Nick Hungerford, CEO and Co-Founder, Nutmeg

Brandon Davies

13 March: *The State of Wealth Management: A Bottom-up View of this Top-down World*
Speakers: Brandon Davies, Non-Executive Director, Gatehouse Bank; Nicola Horlick, CEO, Bramdean Asset Management; Sebastian Dovey, Managing Partner, Scorpio Partnership

To book on to an event, please email pf@cisi.org, stating your membership number. For more information, visit cisi.org/pf

ANNUAL DINNERS

Explorer addresses sell-out crowd

South Coast: Sir Ranulph Fiennes, left, with South Coast branch President, Peter Bell, Chartered MCSI

World-famous explorer Sir Ranulph Fiennes was guest speaker at the annual dinner of the CISI's South Coast branch, ahead of embarking on his most recent gruelling challenge.

Sir Ranulph, who is currently preparing to cross Antarctica in winter – described as the coldest journey on earth – drew a sell-out audience of 150 guests at the event.

A charitable collection at the dinner, held at the RNLI College in Poole, raised more than £1,400 for the Global Natural Healthcare Trust. The UK-based charity runs a healthcare centre in South Africa that provides care and support to vulnerable children, many of whom are infected with HIV/AIDS.

Manchester & District: Barry Cryer, right with Manchester & District branch President, Alan Budenberg, Chartered MCSI

Two other CISI branches, Manchester & District and West Country, also recently held their annual dinners.

The guest speaker at the Manchester & District event, which was attended by 85 guests, was Barry Cryer, comedy writer and performer.

The dinner was held at the Lowry Hotel in Salford, Manchester, and guests donated £795 for MedEquip4Kids, which provides medical equipment for hospitals and health teams to support children's care.

West Country: John Simonett, right, with West Country branch president, Paul Lewis, Chartered FCSI

Some 75 guests attended the West Country dinner at Somerset County Cricket Ground in Taunton, and were entertained by professional speaker John Simonett. The event featured a casino and nearly £590 was raised in support of the local Musgrove Park Hospital.

The funds raised by each branch will be topped up by HM Revenue & Customs' Gift Aid scheme. At each of the dinners, guests were given an update about both branch activities and the latest developments within the CISI.

Membership admissions and upgrades

MCSI
Anfaal Capital
Awadhesh Jha
Apax Partners
Thomas Martel
Arbuthnot Latham
Linda Amili Clack
Bank Insinger de Beaufort
Claire Cripps
Barclays
Philip Attreed
Julian Bailey
Michael Barrett
Harvey Chapel
Michael Dardis
Jeremy Greenwood
Sally Greenwood
Terry Gyorffy
William Lane
Sandra Middleton-Jones
Nigel Mullan
Kevin Nevard
Niall Pasco-McGregor
Elizabeth Parker
Paul Pascoe
James Pearson
Scott Phillips
Andrew Playle
Kartik Rawal
Daniel Ross
Craig Salisbury
Rebecca Shone
Robert Stuzer
Nicholas Wolf
Nicholas Wood
Barratt & Cooke
Martin Sayles
Cardale
Jeremy Dufton
Cazenove
Edward Inglefield
Coutts
Andrew McMillan
Credit Suisse
Kenneth Chapman
Deutsche Bank
Henry Denver
Neil Murray
Fleming Family & Partners
Caroline Jones-Davies
First International
Christopher Morris
Fyshe Horton Finney
Gurdeep Singh Liddar
GHC Capital Markets
Martin Vaughan
Investec
Harry Lygoe
Investment Funds Direct
Andrew Hooper
Julius Baer
Jason Wayne Gooch
Kleinwort Benson
Thomas Freedman
PBR
David Palairet
RBC
Yousif Banayoti
Royal Bank of Scotland
Ian Gibson
Schroders
Nicholas Bence-Trower
Elizabeth Boardman
Adam Cavalier
John Clifton
Stuart Derrick
Robert Farago
Edward Hamilton-Ely
Graham Harrington
Adrian Jones
Nancy Kilpatrick
Kieron Launder
Timothy Main
Giles Christopher Neville
Benedict Noah
Nicholas Orr
Rupert Robinson
Kate Rogers
Robert Rydon
William Stowell
Charlotte Swing
SG Hambros
Nicholas Greenaway
Maureen Llewellyn
William Quantrill
Andrea Steel
Smith & Williamson
Alexandra Buchan
Sutterlüty
Peter Mennel
Udo Sutterlüty
The Business Key
Peter Walker
Other
Mohamed Zameel Mohamed Fauzer

ACSI
Abu Dhabi Islamic Bank
Mohamad Agha
Ayres Punchard
Christopher Welsford
Baillie Gifford
Melissa Holmes
Bank Insinger de Beaufort
Christopher Attfield-Kelley
Beth Davies
Barclays
Gerasimos Amorginos
Richard Joseph Brown
Ross Hemming
William Krupski
Christopher Russell
Pavel Skachkov
Mariana Tricolici
Marc Vowell
Oksana Yesina
BDO Stoy Hayward
Guy Powdrill
Bentley Reid
Jack Henderson
BNP Paribas
Louise Symons
Nabil Yared
Brewin Dolphin
Simon Bird
Leana Prasher
Steven Price
Cazenove
Samuel Harbord-Hamond
Simon Reed
Centre of Excellence for Applied Research and Training
Mohammad Wasel Alachraf
Hasan Alshibi
Ahmad Bazarah
Hussein Ahmed El Sokkary
Salah Eldin Shebib
Cheviot
Paul Hurrell
Clariden Leu
Jessica Husain
Ronnie Porter
Commercial Bank of Dubai
Basel Delly Hasan
Coutts
Benjamin Allen
Graham Andrade
Malcolm Ash
Gerald Bailey
Neil Banks
Nicholas Banks
Neil Bartin
Peter Besant
Robert Bhatnager
Jonathan Bickerdike
James Biggart
Peter Blatchford
Lee Blissett
Nicholas Blogg
Rebecca Boardman
Andrew Booth
Margaret Bradley
Steven Brandreth
Paul Bray
Richard Brown
Mark Bryant
Peter Calbraith
Timothy Carr
Martin Carter
Andrew Christie
Andrew Clark
Graham Clark
Max Cleveland
Julia Cole-Turner
Maeve Colley-Russell
Amy Coppock
Jennifer Crowley
Ralf De Sa
Diane Dennis
Alan Ditton
Maura Dunling
Anna Edenborough
Paul Emery
Neil Ferguson
Ian Findlay
Ian Fleming
Mark Foster
Paul Gallagher
Ivan Gallop
Gary Gee
Anthony Gibbens
Philip Giles
Erica Goodyer
Alastair Graham
Nicholas Green
Richard Hallum
Mark Humphrey
Tony Jackson
Martin Jaffrey
Colin Jones
Scott Kelley
Nigel Kerin
Sean Knights
Perry Littleboy
Matthew Marsden
Alan Marshall
George Mattar
John Mullally
Mark Noble
Matthew Noyce
Kevin O'Malley
Philip Organ
Shantha Pitigala
Evgeniy Pozin
John Price
Anthony Rawlinson
Alan Rodgers
Michelle Ryan
Eleftherios Sachanidis
Stewart Sanderson
David Sargent
Daniel Saxby
James Sayers
Paul Short
Michael Snowdon
Julian Robert Soper
David Stangroom
James Stokoe
Philip Swallow
Janet Swift
Glyn Thomas
Warren Thompson
Nicholas Toubkin
Ian Turland
Peter Wagstaff
Stephen Wilson
EFG
Elli Kashanchi
Financial Services Authority
Jonathan Henry Blankfield
Fisher Investments
Nicholas Skelton
Five Pillars
Raja Mohamad Maiden
Fleet Street Publications
Frank Hemsley
Fleming Family & Partners
Andrew Hadley-Grave
Fraser Mackinley
Karen Ogilivie
Gamma Consultants
Johanna Kirby
General Insurance Corporation of India
Balkrishna Variar
Hartmann Capital
Basil Petrides
HB Markets
James Osborne
Henderson Rowe
Finlay MacLennan
Jupiter
David Blake
Mashreq Bank
Ahmad El Haj Hassan
Imran Qureshi
Moneycorp Markets
Tapiwa Pamberi
National Bank of Abu Dhabi
Raed Abu Nahleh
Firas Najib Al Madi
Tahir Arshad
Omar Awad
Rahul Chandnani
Maha Hamdan
Sandeep Jadwani
Afif Khawly
Hitesh Majithia
Shabeer Musthafa MK
Manjish Nair Madhavan
Lidija Ostojcic
Ihab Ramadan El Shemi
Shreeja Soman
NinetyEast Financial
Ashwanee Ramsurrun
Nordea
Anna Callow
Pictet
Timothy Edmans
Quilter
Graham O'Donoghue
Rathbone
Noelle Cazalis
Neil Clark
James Codrington
Caroline O'Callaghan
Tessa Pilkington
RBC
Nicholas Jewer
Redmayne-Bentley
Jon Moody
Rometsch & Moor
Tobias Rometsch
Rowan Dartington
Kevin Bowhay
Schroders
Pritosh Ranjan
Securities and Commodities Authority
Anssar Mohammed Ahmed
Seylan Bank
Mangala Karunaratne
Standard Chartered
Scotia McLean
The Share Centre
Graham Spooner
Vital Investment
Timothy Jack
X Financial Solutions
Alexander Orban
Xcap Securities
Mark Freeman
Others
Vrushali Bulbule
Cheng-Kai Chang
Mohamed Rihan Hajireen
Samuel Hogg
Aboobucker Lebbe Mohamed Azan
Mohamed Nazmi
Olarewaju Oluwatobi Ola-Ojo
Howard Scott

Chartered FCSI
Brewin Dolphin
Adam Jarvis
CQS
Rosalind Dalton
Vestra
Robert Mean

Chartered MCSI
Brewin Dolphin
Claire Adamson
Church House
Jeremy Wharton
Daniel Stewart
Owen Garnett
Enhance Group
Justin Simpson
Investec
Henry Flather
James Wallace
Killik
Shelain Lakhani
Rathbone
Vincent Hawkes
David Kness
Raymond James
James Chandler
RG Investment Capital
Anthony Gaughan

This list includes membership admissions and upgrades from 24 September to 22 October 2012

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

Simon with his Piper PA-32 light aircraft

Up in the air

Simon Harman, Chartered MCSI, is flying high as a pilot, despite the odd emergency. **Lora Benson** reports

Simon Harman

AVIATION HAS PLAYED a big part in Simon Harman's life. He became an air cadet in his native Jersey at the age of 13 and completed his first solo flight, in a motorised glider, at the age of 16.

"I got the flying bug early – even my first job, while still at school, was as a baggage handler at Jersey Airport," he says.

Nowadays, Simon is not only an accomplished pilot in his own right, having clocked up about 700 hours' flying time and being the proud owner of a Piper PA-32 light aircraft. He is also a flying instructor.

Simon, Director of Philean Trust Company Ltd in Jersey, says: "Flying planes is a dream come true for me and I wanted to pass on the enjoyment I had gained to others."

A passion for aviation saw Simon obtain his private pilot's licence (PPL) while still at school, with Jersey Aero Club.

"It involved about a year of work, sitting seven exams in areas including communication, aerodynamics and human performance, and completing 45 hours of flight training. As I was studying for my school exams at the same time, it was tough but I was very determined.

"An inspiration for me was that my older brother, David, had already secured his PPL before becoming the youngest ever flying instructor in the UK at the age of 17. He now pilots business jets, frequently carrying celebrity passengers."

Simon had to display determination again to qualify as a flying instructor. As a first step, he had to obtain a commercial pilot's licence, completing about 18 months of distance learning, sitting numerous exams and undergoing an intensive flying course.

Simon continues: "I then had to pass a month-long instructor rating course, which was really intense. Basically, you are taught how to fly again so that you are able to instruct someone else."

> *"Even my first job, while still at school, was as a baggage handler at Jersey Airport"*

Where possible, Simon spends weekends and evenings instructing. "Many of my pupils are complete beginners who have been given a flying lesson as a birthday present, but others are working towards their PPL, including a work colleague, Samuel Barnes-Barrington.

"The biggest constraint I face is time, but with Jersey being so small, the close location of work, home and the airport makes it fairly manageable to juggle my commitments."

The great appeal of flying for Simon is the sense of freedom. "From Jersey, you can fly to France in as little as 15 minutes, making it easily accessible for a day trip," he says.

His longest journey has been from the UK to Spain, "which took a couple of stops but was fun and also brought some great views along the way".

Yet flying has not been without its hazardous moments for Simon. On one occasion he and his co-pilot were midway between Jersey and Dinard in France when they experienced an engine malfunction.

"It involved making some difficult decisions in terms of handling," he recalls, "but the situation was helped by superb French air traffic controllers and also seeing a lifeboat en route, along with a helicopter! Not surprisingly, after making it to land safely, we headed straight to the nearest bar."

Another flight from France to Jersey was hit by an electrical-systems failure.

Simon says: "This type of incident really calls on your training and it is surprising how calm you can be when situations arise. I was teaching at the time and remember my student looking rather intently ahead; perhaps he was willing the land to get closer. Air traffic control held up some large jets to allow us to land using the wrong runway. When emergencies happen, it's great to see fire crews waiting for you on the ground." ■

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