SECURITIES & INVESTMENT
FEBRUARY 2013

REVIEW

THE MEMBERS' MAGAZINE OF THE CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT
cisi.org/sireview

Small FRY

The Retail Distribution Review and the investors who face going without financial advice *page 12*

US Debt
Our guide to the ongoing fiscal negotiations, p20

City View
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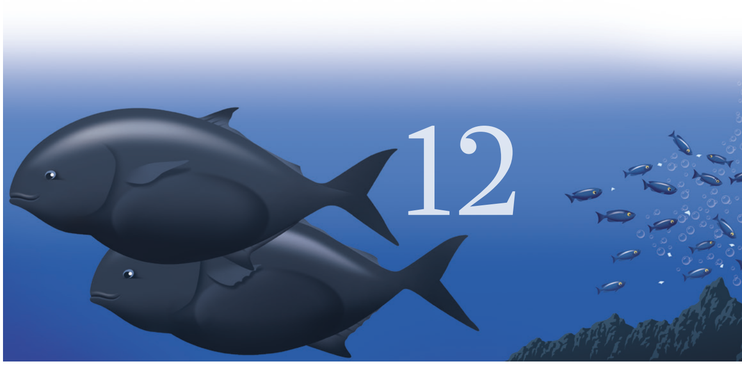

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CISI OPINION

Payday loans are the source of much ire in the financial pages of newspapers, but compared with the equivalent rates that banks charge for unauthorised borrowing, they can offer relatively good deals

High APRs *are not only found in payday loans*

ALEX HATES THIS time of year. It's when the bills from Christmas, which have lain unattended for many weeks, now need paying. This year they are a little higher than expected, by more than £200, and Alex hasn't been sleeping well, worrying about how they are going to be paid. His partner, Sam, tells him to go down to the money shop on the High Street and borrow the £200 on a short-term basis. Alex does as he is told. Next month, the money is repaid, but Alex is astounded to find that he has been charged £84 in interest and fees with a combined APR of more than 2,200%.

Surely this is why the Government undertook, in late December, as part of the Financial Markets Act, to introduce a cap on the amount of interest that can be charged on a loan? This legislation was aimed at payday lenders whose lending rate, in APR terms, is in the thousands of per cent per year.

But Alex didn't go to a payday lender. He went to a bank.

Alex obtained his £200 by taking an unauthorised overdraft from one of the big four High Street banks – one 40% owned by the public. This was a bargain rate; had he gone to the other state-owned bank it would have charged an APR in excess of 4,000%.

On the other hand, if Alex gone to a typical payday lender for his £200, the charge would have been £66, whereas at the sign of the Black Horse it would have been £84.22 and more than £110 at RBS.

So why is there such an outcry over payday loans, but complete silence on the fees being charged by banks for unauthorised borrowing?

> ***Why is there an outcry over payday loans, but silence over bank rates?***

The media warns us that payday loans might be fine for short-term borrowing, but for anything longer than a month, use a bank. True, but a bank overdraft is a short-term loan; how does it differ from a short-term payday overdraft?

In both cases the borrower pays the money back, usually when their salary arrives. Probably also in both cases, some further borrowing takes place the following month, ideally at a lower level than before. So whether an individual borrows via an overdraft or a payday lender, the principle is exactly the same but, rather unexpectedly for some borrowers, it may be as cheap or cheaper to borrow via a payday lender than a bank.

The scandal isn't the rates charged by payday lenders, but the rates charged by banks, whether or not the borrowing is authorised.

Suppose that Alex has visited another High Street bank such as the Halifax, and been allowed to have an overdraft facility of £200. Here the interest rate is advertised as 0%. However the apparently innocuous daily fee of £1 per day – including weekends – makes Alex pay an effective APR of more than 350%.

The payday lenders, and the banks, will live or die by their own actions. In an age when the reputation of bankers, regulators and (probably) politicians has sunk to new lows, public trust is running on radically different lines than it was just a few years ago: along a horizontal axis, based on the views of "people like me", family, friends and Facebook, rather than the old vertical axis from leaders to junior apprentices. Those who gain, and keep a reputation for playing fairly, will win in this highly networked age. ■

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

PROFESSIONAL QUALIFICATIONS

CISI Chief Executive, Simon Culhane, Chartered FCSI, (fourth from right) attends the graduation ceremony

Qatar graduates

Twenty-five financial services professionals in Qatar have been honoured at a graduation ceremony after passing a CISI qualification.

The graduates have successfully completed the Institute's International Introduction to Securities & Investment, a qualification specifically designed to lay career foundations for practitioners in the global investment industry. The qualification is the first module in a mandatory licensing programme for practitioners introduced by the Qatar Financial Markets Authority (QFMA).

Supported by the Qatar Finance and Business Academy (QFBA) and the CISI, the programme is promoting higher standards for those working in the financial services sector.

After achieving the International Introduction to Securities & Investment, candidates must attain further CISI exams, which are specified according to their jobs.

CISI Chief Executive, Simon Culhane, Chartered FCSI, attended the graduation ceremony, which was held jointly by the QFMA and QFBA.

He said: "We are delighted that our internationally recognised exams are forming part of the QFMA's programme to promote professionalism in the market."

OPEN HOUSE

New Bahrain qualifications

The Bahrain Institute of Banking and Finance (BIBF), in association with the CISI, hosted an open house for students and faculty members to mark the launch of two new international qualifications. They are the International Introduction to Securities & Investment (IISI) and the International Certificate in Wealth Management (ICWM).

The IISI award is a stand-alone benchmark exam as well as a unit within the Investment Operations Certificate, formerly known as the Investment Administration Qualification.

The ICWM helps wealth managers to provide high-quality financial advice to their clients.

Opening the ceremony, BIBF Director, Garry Muriwai said: "CISI qualifications are portable, enabling our students to further continue their career progression from anywhere globally."

About 40 people attended the launch event

60-second interview

Atula Abeysekera, Chartered FCSI, in a new report for the think-tank Bow Group, calls on the UK Government to take a more commercial approach to managing civil and national security risks. Atula is Deputy Chairman of the CISI's Risk Forum Committee.

Q Why have you raised this concern?

Managing its civil and national security risk is one of the greatest challenges facing any government. While the current UK Government has made some progress in this area, there is a great deal more that it can do.

Q So what action should it take?

The Government should learn from business, and in particular financial services, by replicating best-practice techniques in risk management. Events such as the financial crisis have prompted businesses to plan effectively for extreme occurrences. Only by embracing robust governance structures and cutting-edge risk management solutions can the UK Government begin to cope effectively with an elusive beast: the Black Swan.

Q What is the Black Swan?

A Black Swan is an event defined as occurring outside projected expectations, causing extreme impact and being seemingly explainable after the fact. The 2011 riots in England were a good example of a Black Swan event – better risk strategies would have helped to manage risks proactively and mitigate their impact.

Q What specific measures would you like to see?

As a starting point, my report recommends the setting up of an independent governance body, the Office for Risk Management, staffed by experts from the industry, and reform of the Government's risk-management framework in a pragmatic and cost-effective way. The Government must act swiftly – it could have an enormously beneficial impact on both the UK's finances and the life of the nation.

Read Atula's report at *bowgroup.org/policy/black-swans-mean-business*

1,087 The number of members who have gained the designation Chartered Wealth Manager, launched by the CISI last year to recognise members at the pinnacle of their profession. For further information, visit *cisi.org/charteredwealthmanager*

RDR REQUIREMENTS

SPS register

The CISI has launched a public register that lists all members who have been issued with a Statement of Professional Standing (SPS) by the Institute.

It is a requirement for anyone applying for an SPS from the CISI to agree to be placed on the register. The listing includes information about Retail Distribution Review (RDR) specialist areas in which an adviser is authorised to advise.

The register is not an exhaustive list of all individuals issued with an SPS. The FSA register holds the only record of all advisers' approved person status.

As an Accredited Body, the CISI has issued SPSs to more than 5,600 existing advisers, enabling them to comply with the requirements of the RDR, which came into force on 31 December 2012.

Existing advisers had a 60-day 'safety-net period' from the beginning of this year to obtain an SPS and the CISI is completing processing applications made in the last few weeks of 2012.

CISI Managing Director, Ruth Martin, said: "Many advisers will be starting the new year confident that they meet all of the new regulatory criteria as the RDR comes into force as 'business as usual'. They all now need to adapt to the new annual rhythm of renewing their SPSs and that will include paying close attention to the continuing professional development requirements. We congratulate our advisers and their firms and look forward to supporting them during 2013."

The CISI SPS register can be found at *cisi.org/spsregister*

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 am sad to report that Les Baxter, one of Yorkshire's best-known stockbrokers, has died, aged 69.

Due to his father's death, Les left school at 15, and initially got a job at a beermat factory but quickly realised it was not for him. He joined the Huddersfield stockbroking firm of Robert Ramsden & Co as an office junior in 1962 and rose to become a partner in the business and a member of the London Stock Exchange in 1972.

Robert Ramsden became part of Capel-Cure Myers in 1990, and Gerrard in 2000. When Gerrard closed its Huddersfield branch in 2002, Les and his son, Carl, reopened an office in the town under the Fyshe Horton Finney banner.

Les was an active committee member of the Institute's Yorkshire region from its outset in 1990s, and was a leading light in its formative years, while also serving on other industry bodies. He leaves a wife, Margaret, three sons and three grandchildren.

Emma Cochrane, Chartered MCSI, President, CISI Yorkshire branch

MANSION HOUSE DEBATE

Is the City facing disaster?

Angela Knight FCSI(Hon)

This year's City Debate at London's Mansion House on 28 February will address the crunch question of whether the City risks disaster if the UK continues to disengage from Europe.

Angela Knight FCSI(Hon), former Chief Executive of the British Bankers' Association, will return to the City as Moderator.

Elmar Brok, a senior German MEP, will speak for the motion, supported by the *London Evening Standard*'s Anthony Hilton. They will be opposed by Daniel Hodson, former CEO of LIFFE and Master of the Mercers Company, and former Flemings fund manager, Tim Loughton MP.

The Futures and Options Association has been running this annual debate since 1996, and it has become established as one of the City's more entertaining and intellectually stimulating discussions. This year, for the first time, the debate is supported by the CISI and the Centre for the Study of Financial Innovation, a leading global think-tank.

The City Debate comprises a black-tie dinner, for about 250 senior representatives from the international financial community, followed by a university-style debate that includes contributions from the floor and electronic voting.

For further information, please visit *foa.co.uk*

CAREER MANAGEMENT

CPD in Scotland

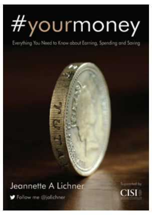
The CISI's CPD programme in Scotland got off to a lively start with a dual Glasgow-Edinburgh session on 'Managing your career'. The programme was hosted in the two cities by HSBC and Morton Fraser respectively.

Mark Beacom of Michael Page (pictured, far right), entertained packed audiences with a clear mission for career management. "Start with the end in mind", was Mark's message. "Most people spend too much time on what is urgent and not enough time on what is important," he observed.

Stephen Barclay, Chartered MCSI, Vice President at Barclays and President of the Institute's Scotland branch (centre), chaired the Glasgow session. Mark Galloway, FCIBS, of HSBC (left), Chair of the Edinburgh District Centre of event partner the Chartered Banker Institute, chaired in Edinburgh.

BOOK OFFER

CISI invites firms to help schools



The CISI is inviting firms to support its drive to improve financial literacy – by making an acclaimed new book available to school pupils.

Written by Jeannette Lichner MCSI, an experienced financial services professional, with the backing of the CISI, *#yourmoney* is a comprehensive guide to earning, spending and saving money. It is aimed primarily at 16 to 25-year-olds.

The Institute is donating a copy of the book to every school, college and university student enrolled on a CISI qualification programme.

Now the Institute is encouraging firms to widen access to the guide by sponsoring local schools to receive copies. The guide, available to CISI members for £9 as a paperback, can be bought by firms at a discounted rate for bulk purchases.

The launch of the book has met with a positive response, both from the media and the financial services sector.

"A veritable survival guide to the scary world of finance" is the verdict of Norwich's *Eastern Daily Press*.

Sophie Robson, of the Centre for the Study of Financial Innovation (CSFI), says: "*#yourmoney* goes a long way to helping young people understand all aspects of money management – and is surely a must-read for anyone embarking on the journey towards financial independence".

For further information about sponsoring copies of the guide, please contact *educationdevelopment@cisi.org*.
To buy a hard copy of *#yourmoney*, priced £9 for CISI members, visit *cisi.org/yourmoney*. The book is also available in e-reader format from Amazon for £7.

FINANCIAL LITERACY

Institute supports education reform

The CISI is backing a Private Member's Bill forwarded by Thomas Docherty MP to include financial literacy in the national curriculum.

CISI Chief Executive, Simon Culhane, Chartered FCSI, said: "It is encouraging to see this important issue making its way to the top of the Government's agenda and we have Mr Docherty to thank for getting us through the door.

"In the meantime, under-25s need tangible, impartial output to help them navigate the money challenges and pitfalls ahead of them and our book, *#yourmoney* [see story, left, for details], has been produced to address this need."

The Centre for the Study of Financial Innovation released a survey last July that showed that out of 440 young people aged 18 to 25 years, 84% had not had any formal financial education.

Investing in Futures

Firms can also help the development of young people by supporting the CISI's Investing in Futures initiative and becoming a work experience host.

By taking part in the programme, firms can play a pivotal role in developing students who are learning about the financial services industry by studying for one of the CISI's introductory qualifications.

To find out more about hosting students, visit *cisi.org/investinginfutures*

INVESTMENT COMPLIANCE

New diploma on offer

The Diploma in Investment Compliance (DIC), the CISI's highest level compliance qualification, has been updated to incorporate new units. The new Diploma comprises the following units, and candidates must also pass Introduction to Securities & Investment:

- level 4 Financial Regulations and Professional Integrity
- one of Combating Financial Crime, Risk in Financial Services or Global Financial Compliance; and Regulation and Compliance

The award is at QCF level 6 and can lead to personal chartered status.

There is an international version of the DIC available, in which candidates can substitute a local regulatory paper for the level 4 Financial Regulations and Professional Integrity.

The new DIC is available now, but candidates can still obtain the qualification under the old regulations until December 2013.

Full details of the new DIC, its international variant and the transitional arrangements can be found at *cisi.org/dipic*

EXAM SUCCESSES

Caption: Kevin Moore, Chartered MCSI, CISI Global Business Development Director, second right, presents awards at Credit Suisse. Pictured, from left, are Sharon Chen, picking up an award on behalf of Wang Yuyou Amelia, and winners Tham Jun Wei Royden, Desiree Lee Kai Xin and Raymond Lye

Singapore awards

Top CISI exam performers in Singapore have been recognised for their achievements.

In its fifth annual Singapore awards, the Institute honoured 21 high flyers from 13 firms, reflecting the wide take-up of the CISI's globally recognised qualifications.

Kevin Moore, Chartered MCSI, CISI Global Business Development Director, visited a number of firms in Singapore to present awards to winners. Credit Suisse led the way among firms, providing four award recipients.

ONLINE

BEST OF THE BLOGS

1 tinyurl.com/a2m8suf
With the debate about the US fiscal cliff exercising passions on both sides of the political spectrum, Nobel prize winning economist – and *New York Times* columnist – Paul Krugman turned his analytical skills to the political gaming employed by President Obama. Rather, that should be lack of gaming. In a post titled "The World's Worst Poker Player" Krugman lambasts the President re-elect for caving in too easily to Republican demands in the discussions at the end of December 2012. In Krugman's words, this doesn't bode well for Obama's position in the upcoming negotiations in March. The Republicans will simply assume that the President will capitulate rather than stand his ground.

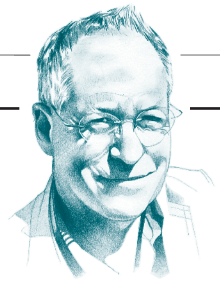
2 tinyurl.com/bfh3jke
That other aged stalwart of US printed media, *The Washington Post*, could not have disagreed more stridently. In his blog on the winners and losers in the fiscal cliff deal, Chris Cillizza places Obama as a definite victor in the negotiations, writing that the "President sought to sell the need to raise taxes on the wealthy to the public in a campaign-style pitch that was heavy on the stick and light on the carrot." For Cillizza, Obama's victory was crucial in winning a "message battle" in communicating the financial truths to the American public.

3 tinyurl.com/b4vdogg
To try and settle the argument over President Obama's political dividend, a poll by the Pew Research Center gauged the thoughts of the US nation – and opinion has it that Obama edged the negotiations. Some 57% of sentiment felt that the President got more of what he wanted from the tax legislation, compared with the 20% that believes Republican leaders got what they wanted.

Even if the eminent Paul Krugman pours scorn on Obama's methods, 81% of Democrats approve of how the President handled the negotiations. We suspect the President is happy, for now.

See page 20 for more about the negotiations going on to tackle the US debt.

Do you have a blog recommendation?
Send it to the Editor: *rob.haynes@wardour.co.uk*



CLAY *'MUDLARK'* HARRIS

Simon Welsby ACSI, Vice President, Pershing

Simon Welsby ACSI gives credit where it is due. "I was brought up by my mother and grandmother in Golborne, between Wigan and Warrington. I was used to the idea that my mother worked a lot of hours to support us." She was ambitious for Simon and wanted him to be an accountant, perhaps because maths was his strongest subject in school.

It didn't turn out that way, but Simon hasn't done badly on his own path. He is now a Vice President in Liverpool for Pershing, a subsidiary of BNY Mellon that provides customisable custody, administration, portfolio management and trading services for clients, including wealth managers, broker-dealers and adviser clients in the UK, Ireland and Channel Islands.

He worked as an office junior at British Nuclear Fuels Ltd in Warrington for two summers while in college, in part to be able to buy his first PC. He took a year out after A-levels to earn money for university. Although he had six offers to study accounting and finance, he decided not to go.

A friend's parents worked at Royal Sun Alliance in Liverpool and suggested that he send in a CV. In 1997, aged 18, he joined RSA as an office junior. After two years, he passed the first part of the Institute's Investment Administration Qualification, as the Investment Operations Certificate was then known, and soon completed all three modules. He subsequently earned the Investment Management Certificate and Regulatory and Compliance Diploma.

By 2001, when he was a senior clerk, it seemed that there were more opportunities in his line of work in London, but his wife, an occupational therapist in the NHS, wanted to stay in the north west. Simon decided that his priority was to put family first. With the growing financial sector in the region, however, this has not really entailed any career sacrifice.

> In 2010, Simon was named a BNY Mellon Star Award winner

He was made a supervisor. At the beginning of 2005, while Simon was on paternity leave, one of his staff gave notice. That prompted a thought he had never had before – to look elsewhere himself. He sent his CV to agencies and immediately got an interview with Pershing.

Pershing was expanding its Liverpool operation, doubling in numbers from its previous 50. It has since grown to about 230. Simon started as a supervisor in client reporting, producing valuations (and helped in redesigning their format) for outside clients and investors. He became an Assistant Vice President in 2007 and a Vice President in 2011.

He now manages a team in charge of unit trust administration, processing dividends, the transfer of stocks and settlement of trades.

In 2010, Simon was one of 50 group worldwide employees (about one in 1,000) to be named a BNY Mellon Star Award winner. He went to Tucson, Arizona, to meet and mingle with the company's top people. He is now in a pilot programme aimed at nurturing talent within BNY Mellon.

Although he works whatever extra hours are necessary, Simon is determined to spend all of his spare time with his family, including attending home matches of Premiership football team, Wigan Athletic, with his older daughter.

While Simon did not have the career she had envisaged, his mother Brenda, now retired as a senior secretary at BNFL, told me: "I am immensely proud of Simon and what he's achieved. I've always thought: work hard, and you'll be rewarded."

Simon Welsby ACSI

Vice President, Pershing

Do you have a back-office story?

mudlarklives@hotmail.co.uk

Illustration: Luke Wilson

CPD

Emerging markets

Robert Barnes, Chartered FCSI

Chris Woods

Some of the world's most exciting investment prospects lie in frontier and emerging markets, relatively new entrants that can – if all goes well – transform returns.

In 2012, the four BRIC countries (Brazil, Russia, India and China) contributed some $2.2tn in additional GDP to the world, equivalent to another Italy every year. (And in spite of its problems, Italy is still the world's eighth-largest economy, though shortly it will be overtaken in that position by Russia). The 'Growth Eight' economies as defined by Goldman Sachs Asset Management Chairman, Jim O'Neill, taking in his original BRIC stars plus Indonesia, Mexico, South Korea and Turkey – chipped in almost $3tn to world GDP growth in 2012, more than the UK's overall economic activity.

Yet from an investment point of view, what makes a good market? How do index providers like FTSE rank them? How can they progress up the ladder of development, from 'frontier' to 'emerging' and beyond? How is best execution, and commission-sharing, affecting the geography of trading?

Robert Barnes, Chartered FCSI, of UBS and Chris Woods, of FTSE, will probe these issues at a major event at lunchtime on 7 March 2012, at the Willis headquarters in Lime Street, London EC3.

For details, please visit *cisi.org/eventscal*

SURVEY RESULTS

Opinion backs stimulus

Stimulating economic growth in the UK should be Mark Carney's priority when he becomes new Bank of England Governor, a CISI survey shows.

More than half (56%) of the 335 respondents believe that breathing new life into the economy should be Carney's focus on taking up the role in the summer.

A further 26% say that his number-one task must be to restore public confidence in financial services, while 11% feel that regulation of the banking sector should be top of his in-tray.

Changing the Bank's insular culture was the favoured option of 6% of financial services players who took part. Only 1% felt that Carney, Governor of the Bank of Canada since 2008, should retain the status quo.

One respondent commented: "Economic growth is essential in an era of declining economies, when countries are asking for 'bailouts' rather than pursuing growth."

Another said: "He should make regulation his priority; by doing so he will also restore public confidence. Furthermore, it would be interesting also to prosecute individuals and in particular senior management for wrongdoing and not only fine companies."

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

Ask the experts...

Jocelyn Brown
Corporate Governance Adviser, Codes & Standards Division, at the Financial Reporting Council

THE UK STEWARDSHIP CODE

What is it?
The UK Stewardship Code (the Code), published by the Financial Reporting Council (FRC), aims to promote the long-term success of companies and the ultimate providers of capital, such as shareholders and bondholders, by improving the quality of the conversation between companies and institutional investors. The Code sets out good practice on engagement with investee companies, to which the FRC believes institutional investors should aspire and operates on a 'comply or explain' basis.

What does the Code say?
The Code has seven principles, which say that institutional investors should:
1. publicly disclose their policy on how they will discharge their stewardship responsibilities
2. have a robust policy on managing conflicts of interest in relation to stewardship that should be publicly disclosed
3. monitor investee companies
4. establish clear guidelines on when and how the investor will escalate stewardship activities
5. be willing to act collectively with other investors where appropriate
6. have a clear policy on voting and disclosure of voting activity
7. report periodically on their stewardship and voting activities.

Who are the Code's signatories?
There are three classes of signatories: owners, managers and service providers. Since 2010, all UK-authorised asset managers are required under the FSA's Conduct of Business Rules to produce a statement of commitment to the Stewardship Code, or explain why it is not appropriate for their business model.

Owners and service providers can sign up on a voluntary basis, and some signatories are based outside of the UK, primarily since they hold a significant amount of UK equities. The Code also has supporters – not full signatories – who believe in the aims of the Code. Examples include international pension funds such as CalPERS in the US, AP3 in Sweden and the Australian Council of Super Investors.

Why was the Code updated?
The Code was launched in 2010 and revised for the first time in 2012, although the core principles remain unchanged. When the FRC consulted the market, it heard that much of the Code was fit for purpose, but asset owners weren't clear about their duties. So the FRC made it clear that owners are not expected to engage directly. While some asset owners are in a position to engage directly with companies, the majority will do so indirectly through the mandates given to asset managers. The FRC also asked asset managers to give a clearer picture of how they use proxy voting agencies – the 2012 Code makes it clear that outsourcing to third parties does not absolve managers of their stewardship responsibilities.

How much support is there for the UK Stewardship Code?
As at the beginning of December 2012, the Stewardship Code had 259 signatories. This number is comprised of 187 asset managers, 58 asset owners and 14 service providers. Of the owners, 40 are pension schemes. All but six signatories are based in the UK or have some form of UK operation.

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

HISTORY

New museum in store

Brian Winterflood, FCSI(Hon)

One of the CISI's longest-standing members is bidding to set up a stock exchange museum in the City of London.

Brian Winterflood FCSI(Hon) says that with a regulated exchange having been formed in London in 1801, a museum is "200 years overdue and if we don't get on with it, much more will be lost".

A charity name – the Stocks and Shares Museum – has been secured by Brian, various personnel have been lined up and a range of exhibits pledged. A search is underway for suitable premises.

Brian is looking to recruit 25 to 30 founding fathers and mothers to support the initiative "whose names are synonymous with the growth of the Stock Exchange over the past 50 years". He said once the founders are on board, general fundraising will begin while Government involvement is being pursued.

Brian said that upon inception, the museum name will become the National Stock Exchange Museum to incorporate the history of provincial exchanges. Later, he hopes to rename it the Financial Services and Education Centre of the UK, taking in extinct physical exchanges, such as the Baltic.

Brian said: "It is an exciting project and one that will need all the help you can give, but not yet. There is a lot to do before I send out the begging letters – I just want you to be prepared." Brian, Life President of his own firm, Winterflood Securities, was appointed an MBE in 2012, in honour of his contribution to financial services over nearly 60 years. He transferred from the London Stock Exchange to the Institute on its formation in 1992.

For further information, contact Brian. Email *brian.winterflood@wins.co.uk* or call +44 203 100 0000

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. How are liabilities categorised on a balance sheet?
A) By creditor type ***B)*** Whether they are readily realisable or contingent
C) By the length of time before they fall due for payment ***D)*** By the size of the amounts

Q2. Shares that are listed by a company that does not maintain a share register are normally known as:
A) 'A' shares ***B)*** Convertible shares ***C)*** Redeemable shares ***D)*** Bearer shares

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. A bank with £200,000 of cash deposits and a reserve ratio of 10% can create what maximum value of loans?
A) £180,000 ***B)*** £200,000 ***C)*** £900,000 ***D)*** £1,800,000

Dash for trash

The financial markets are starting to gain an appetite for riskier assets, as the collective sentiment is that the worst of the economic crisis has passed

Uh-oh. It's starting to feel like 2007 again. Everyone has had the same investment idea: risk is very much 'on'. Billions have been poured into stock markets. And the money has not just been flowing into shares: an unseemly 'dash for trash' is underway. The start of the year has been marked by a rally that has lifted all boats, from Italian shares, which until recently were shunned by foreign buyers, to riskier areas of debt such as 'junk bonds'. The big bet for 2013, it seems, is that the US economy will recover, the worst of the eurozone crisis is past and China will avoid that hard landing. Confidence has been running high. The Wall Street 'fear gauge' – the Vix – which measures implied volatility, has tumbled. Many investors expect a smoother ride.

One indicator of just how bullish markets have become is the performance of junk bonds, the risky end of the corporate debt spectrum. Soaring demand for these securities has sent prices higher, but also means that returns are falling. Yields in the US have gone below 6%.

This rally in junk has been underway for a while and is not necessarily dangerous. But its acceleration has raised eyebrows. Sir Mervyn King, Governor at the Bank of England, is among those to have warned against over-exuberance. For investors to be mis-pricing risk while economic recovery remains weak is "disturbing", he says.

If the dash for trash is something to worry about, then Sir Mervyn and other central bankers have helped create the problem.

The central banks have contributed to the headlong rush into higher-yielding assets by keeping interest rates at historic lows and flooding the global financial system with cheap funds. Why should investors tolerate the dismal returns on government debt when they can borrow money at next to nothing and bet on something more exciting?

Like many things in moderation, this can be a good thing. If one effect of the US Federal Reserve's quantitative easing programme is to boost stock markets, helping lift people's confidence, that in turn could help prospects for wider economic recovery. The danger comes when investors stop discriminating, when everything that has been kept at arm's length becomes alluring.

The *Financial Times*' John Plender has pointed to a number of pricing anomalies that suggest we could be nearing that point: in the UK it is possible to buy index-linked property leases in food retailing on a similar yield to that on related corporate bonds on which income is fixed. Certain boom-era bonds with relaxed credit discipline are back.

Nobody says markets have to track fundamentals. Investors who buy stocks, after all, are backing companies' future earnings prospects, be it months or years away. And the momentum provided by that central bank money is a powerful force of itself.

But it's worth pausing for a second. The European Central Bank, with its pledge to do "whatever it takes" to preserve the euro, did much to allay the immediate crisis that nearly pushed Spain to seek a bailout in the autumn. But eurozone economic and fiscal prospects are far from attractive. Europe, perhaps more so than the US, where politicians struck a deal to prevent America falling over the fiscal cliff, remains the biggest 'tail risk'.

> *"The start of 2013 has been marked by a rally that has lifted all boats"*

One recent Goldman Sachs note points to the scale of the task facing Europe's indebted nations. "The rebalancing challenge in these economies remains substantial. Further painful internal devaluation is required," it says.

It warns that the reforms needed in these countries entail overcoming vested political interests with a stake in maintaining the status quo. "Absent market pressure, the reform progress may stall under the weight of these interests."

Italy is the one to watch. Popular anger over the spending cuts and tax increases imposed by Mario Monti's Government is rising ahead of elections late in February and Silvio Berlusconi, former prime minister, has been closing the gap on centre-left Democrats. The outcome in Rome will be a big test of whether Europe's political leaders can really deliver what the markets have priced in. ■

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

Small fish IN A BIG POND

The Retail Distribution Review is upon us, and it is changing the market for advice handed out to smaller investors. **Beth Holmes** investigates

THE FSA'S RETAIL Distribution Review (RDR) is a unique opportunity to strengthen the UK's financial-planning industry, yet the question remains as to where smaller private clients will find investment advice, if they find it at all. With millions at risk of going unadvised, how are firms changing their business models to meet the demands of smaller investors?

According to the FSA, its ambitious review is designed to "improve the quality of advice, reduce misselling and, in the longer term, improve the level of consumer confidence and build general levels of trust in advisers".

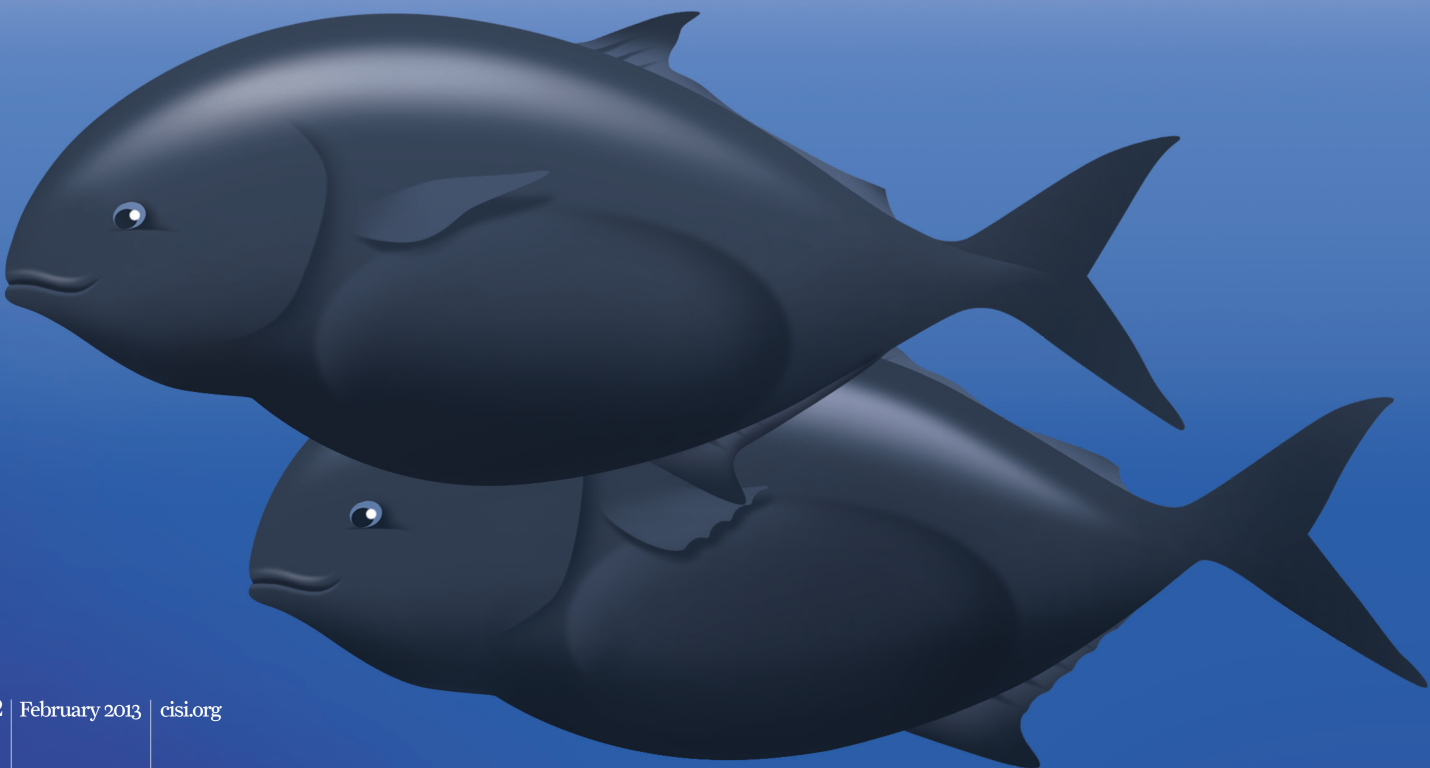
Kevin White, Managing Partner of deVere United Kingdom, the UK division of the world's largest independent financial advisory firm, says: "It is especially important as many major names, such as the Lloyds Banking Group, Barclays and HSBC, have pulled out of mass-market tied advice due to RDR, and this could lead to an advice gap in middle England. A sudden surge in the numbers of people not receiving financial advice could have significant negative consequences."

Some brokers have already responded by adjusting their discretionary management services to offer the largest clients a full bespoke face-to-face service, those with less a model portfolio and the smallest clients support through providing an approved funds service to IFAs (without any minimum investment amount).

The big players

In September 2012, Santander outlined its plans to offer face-to-face investment advice post-RDR to customers with existing savings and investments of at least £25,000. But last December the bank suspended its investment advice service completely, and took 800 advisers off the road, admitting they did not meet requirements for "RDR suitability".

Barclays closed its financial-planning arm in January 2011, offering advice only to high-net-worth clients through Barclays Wealth and Investment Management. The threshold for its UK private-banking service is broadly £500,000 in investable assets, although it will look at individual cases if they have other touch points



across the bank, such as in investment and corporate banking.

A Barclays spokesperson said: "We will be providing advice from an approved list, following extensive research and due diligence... Ultimately, the RDR will challenge the industry to improve standards and provide clients with the opportunity to be more demanding about the quality of service, quality of advice and quality of execution."

Lloyds Banking Group and HSBC are also paring back services to those clients who can best afford them. Nationwide, on the other hand, remains open to all, and revealed its fee structure in January – a 3% initial charge and 0.5% for ongoing advice, regardless of the total amount invested.

Mind the gap

With an advice gap a real possibility, the numbers being bandied round are not small. A recent Deloitte survey of 2,000 adults led to an estimate that 5.5 million people will stop taking professional advice. Andrew Power, RDR Lead Partner at Deloitte, says: "Those left in the gap will either have to provide their own advice or get some kind of guided advice."

He brings up one positive – though temporary – effect of this quandary. "If people spend more money than they save, it's good for the economy in the short term. But the lingering questions over things like the retirement gap have major impacts in the long term."

The danger, believes Power, is that this is a move from misselling to mis-buying, "with people either keeping cash for too long which, over time, will be inflated away, or investing in the wrong things".

What smaller clients do, of course, depends entirely on how the industry reacts to RDR in terms of creating or evolving new business models. The knock-on effect, now that the ban on product provider commission has come into force, is that IFAs and other intermediaries are going to lose a large chunk of their income. Indeed, not only will income be substantially cut, but their costs will increase because the FSA has tightened its requirements (as its ferocious letter in June 2012 telling the industry to beef up its processes bears testament to). As CISI Senior Adviser Christopher Bond, Chartered MCSI, says: "Retail advisers face a classic squeeze: lower commission from the ending of product provider commission and higher costs from the FSA's strong focus on fact-finding and suitability."

Meeting demand

There are a number of new avenues and different strategies that firms are adopting, starting perhaps with just offering simplified advice. The initial recommendations of last August's *Sergeant Review of Simple Financial Products* interim report, headed up by former Chief Risk Officer at Lloyds Banking Group Carol Sergeant, included a range of kite-marked simple products to help restore consumer trust and fill the gap. Among them were a simple easy-access savings account, a 30-day notice savings account and a simple term life-assurance product that could benefit the millions of households that have combined incomes of above £15,000, yet below £50,000.

Some firms may try to move into asset management, attracted by the regular management fees charged to clients.

Praise for CISI exam

Former Cabinet Minister John Redwood has praised a CISI RDR-compliant qualification, after passing it with flying colours.

Redwood, Chair of the Investment Committee at Evercore Pan Asset Capital Management, took the Certificate in Private Client Investment Advice & Management (PCIAM) to improve his "analysis and understanding" of the advice sector.

He gained a distinction and, writing in *The Daily Telegraph*, endorsed the PCIAM for its "clarity, relevance and openness".

The exam tested "exactly the skills the adviser should have" in understanding and meeting the needs of clients, wrote Redwood.

He suggested that while there may be a dip in the numbers seeking advice, there could also be "an increase in the quality of advice and the engagement of the client with it".

The PCIAM was the qualification of choice for many experienced advisers in the wealth-management sector who sought compliance with the Retail Distribution Review (RDR).

It became an RDR-transitional qualification in 2009 and 4,480 candidates sat the exam with 3,117 securing it – a 70% pass rate.

New advisers seeking compliance with the RDR qualifications can become qualified by taking either the level 4 Investment Advice Diploma or the level 7 Masters in Wealth Management.

For further information, visit cisi.org

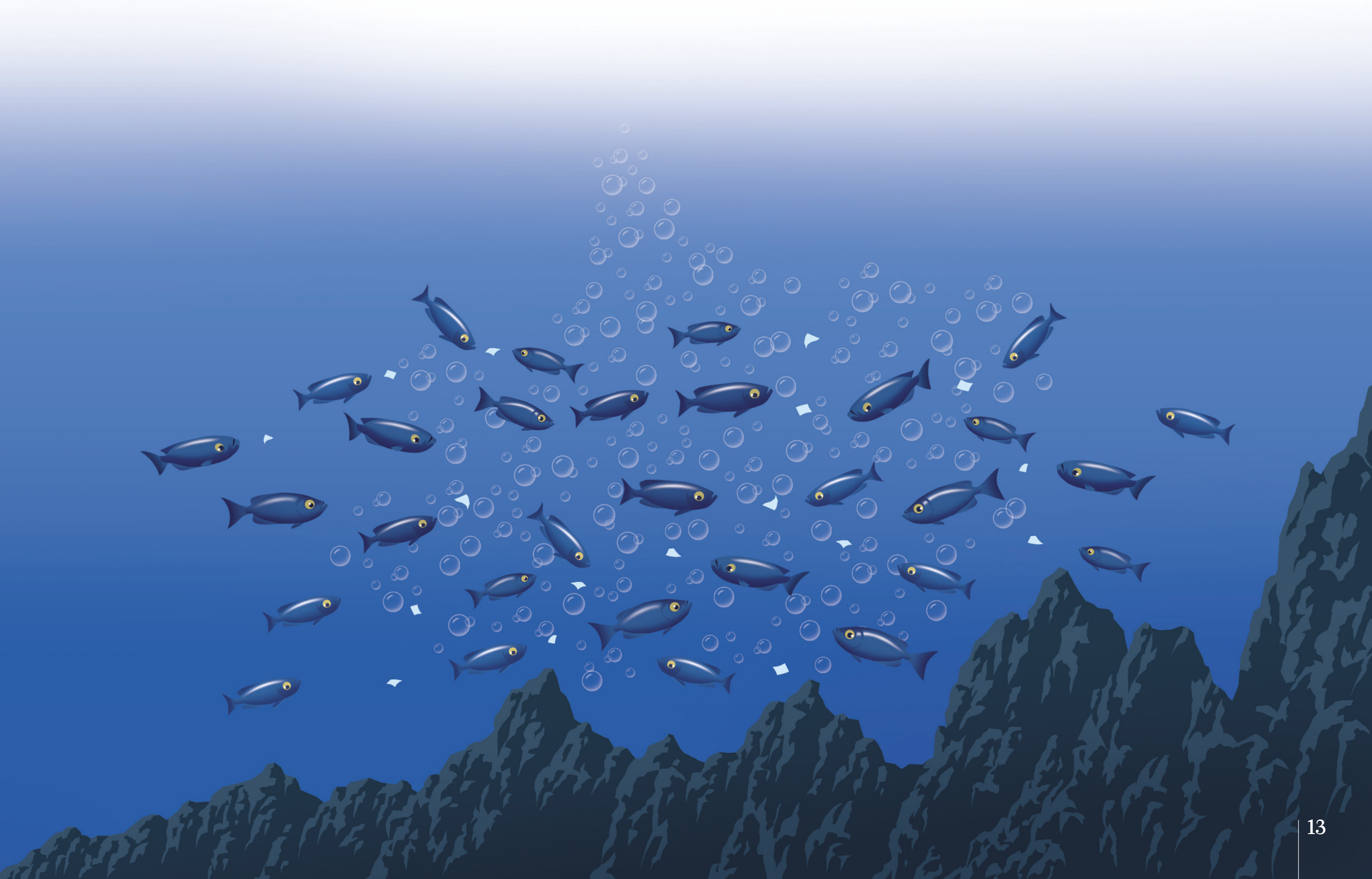


Illustration: Laurence Whiteley for NB Illustration

There may be a move by stockbrokers to managed products, especially using model portfolios, where the suitability issues are resolved at the outset. The time-intensive part is at the start, by making sure that the right product is chosen, but managing is considerably less labour-intensive and so this is a good option for medium-sized clients and could be modified further for small clients. It also works for small IFAs – even a one-man band can offer this wider choice of portfolio.

Then, of course, there are execution-only products, not caught by the RDR, which have attracted the attention of big players such as Standard Life and Prudential, as well as smaller brokers. Under such schemes, investors advise themselves, through research and online tools, and get to the stage where they are confident enough to make a purchase, at which point they turn to the expert to execute.

Bond says: "Small private clients are likely to be faced with a clear choice: pay professional rates for advice, do without or go execution-only."

Happy medium?

The market is reacting to capture investors with medium-sized portfolios (in the range of £50,000 to £150,000). Bestinvest provides online educational tools geared to support clients making their own investment choices and charges on an execution-only basis. This is done alongside the range of model portfolios it started offering before the December 2012 RDR deadline.

More controversially, Ascentric enables IFAs to outsource discretionary fund management advice and dealing, allowing it to provide more cost-effective advice to clients with small portfolios. Bestinvest is one of the many firms Ascentric lists as offering discretionary fund-management services.

Market dynamics

Meanwhile, Power suggests that the impact of the RDR will mean that business models are "much more segmented". He says: "Get the IFAs focusing on those customers who can afford advice, with an initial triaging approach," and if they can't afford it then they should be directed to an execution-only website.

"The biggest impact will be on the mass market," he adds. "They have simple needs and not a great breadth of assets. It's hard for advisers to make money at a price customers are prepared to pay."

In contrast, Frank Dolan, Chartered FCSI, founder of Novatis Asset Management, believes there is no reason why smaller clients should not get advice post RDR: "Look at the smaller accountancy firms which manage to undertake private tax work (such as completing self-assessment returns) for, say, £150 or so," he argues. "Initially the smaller private client may struggle to get advice, although I think a number of firms will recognise that this is a market that is being 'missed' by many.

"Ultimately the difficulties will be for IFAs recognising that some of these smaller private clients will one day become high net worth – it's just that we don't know which ones. Clients also need to appreciate that advice is not free, never has been free and never will be free."

Dolan suggests that issues created by the RDR are as much the 'fault' of the investors as the rules themselves. "The biggest concern," he says, "is that so many people are so ignorant that they: a) do not see the value of saving or investing; b) believe that they can do as good a job as a professional; and c) seem to have no understanding of how advice is paid for. We can criticise the adviser and insurers as much as we like, but the public needs to wake up and smell the coffee. Educating future generations properly would be a good start." ■

"Clients need to appreciate that advice is not free, never has been free and never will be free"

Are smaller clients turning to the web?

With the reduced fixed costs associated with any web-based service, financial advisers seeking to serve customers via the internet have been proactive in responding to the new landscape created by the RDR.

Among these are offerings that seek to recommend actively managed funds (such as those offered by Bestinvest and Fundexpert) and those that provide an index-tracking approach (such as Money Guidance and Nutmeg).

Bestinvest, for instance, offers a 'guidance only' service targeted at customers who want to better comprehend the funds they already invest in. Users are offered a free report after entering details about their holdings into the site's analysis tool, and are then informed if their funds are good performers or 'dogs', rated as poor quality by Bestinvest's researchers.

Nutmeg, on the other hand, is a discretionary service that builds and looks after portfolios for savers with as little as £1,000 to invest. Its remit is to offer low-cost fund-based portfolios for investors of any wealth level and it charges a yearly management fee of 1% to build and manage portfolios. The funds that Nutmeg invests in will charge their own fees, which will decrease overall returns. As Nutmeg largely invests in exchange-traded funds, these costs will typically range between 0.09% and 0.75%.

Pulled *apart*

While regulators in the UK, the US and EU struggle to restructure banks, the bank lobbyists are fighting back. **Dan Barnes** reports

ONLY A COMPLETE separation of 'casino banking' and retail banking will keep lobbyists from joining the two parts back together, conclude many regulators, analysts and market commentators. They fear that anything less, such as ring-fencing legislation designed to insulate the public from banks' speculative trading losses, will be overridden by lobbying groups.

"The real problem we have is whether we can put in place structures that are effectively robust against years of lobbying by banking interests," says John Kay, visiting Professor of Economics at the London School of Economics, of the challenges facing regulators in the UK, the US and the EU. "You can arouse public interest for a short time, which carries political clout, but professional lobbyists are there all day, every day. We've seen so many examples of where that has left the public interest in the favour of sectoral interest in the last 20 years."

Authorities in all three locations agree that speculative trading activity (and proprietary trading) should be separated from less risky operations, but they disagree on how far. Some think that retail and investment banking should be entirely separate, others that these activities should be ring-fenced, but conducted by the same financial group.

"There is strong alignment between the regulators, the politicians, depositors and, of course, taxpayers, who all want to see banks become safer and less likely to draw on public money," says Chris Broyden, Managing Director at the independent professional services firm, Alvarez & Marsal. "But there are still differences in how best to achieve these aims."

Drawing the line

Regulators in the EU, the US, the UK and France have each set out plans to separate retail banking from trading in their own unique ways.

Until 1999 the US had enforced separation of these banking activities under the Glass-Steagall Act of 1933, which had been put in place after the Wall Street Crash, to protect consumers. It was repealed under the Gramm-Leach-Bliley Act of 1999, having been eroded by years of lobbying.

The June 2010 Dodd-Frank Act reintroduced these principles and so US regulators set up a rule in October 2011 conceived by Paul Volcker, then Chairman of the Economic Recovery Advisory Board, which bans deposit-taking organisations from proprietary trading and from taking more than a 3% stake in firms, such as hedge funds and private equity firms, that engage in risky practices. The rule is due to come into effect on 21 July 2014, pushed back from its original deadline of 21 July 2012.

Britain has taken a different line. In September 2011, the Independent Commission on Banking published a report in which its Chairman, Sir John Vickers, recommended ring-fencing retail banking operations from other businesses and investment banking. "This would require banks' UK retail activities to be carried out in separate subsidiaries. The UK retail subsidiaries would be legally, economically and operationally separate from the rest of the banking groups to which they belonged. They would have distinct governance arrangements, and should have different cultures," Vickers wrote.

It was backed in the Financial Services (Banking Reform) Bill, published in October 2012 and is expected to reach Parliament in 2013.

The EC commissioned a report from a High-level Expert Group, established by Commissioner Michel Barnier in February 2012, on the reform of the structure of the EU banking sector. Chaired by Erkki Liikanen, Governor of the Bank of Finland, it concluded in October that, where a bank's assets held for trading and available for sale exceed 15–25% of total assets or €100bn, "proprietary trading and other significant trading activities should be assigned to a separate legal entity if the activities to be separated amount to a significant share of a bank's business".

Hedging to non-bank clients would be free of ring-fencing, as would underwriting of equity and debt issues, but activities such as market-making would not, and the ring-fenced part would have to be separately capitalised to the rest of the bank's operations.

Public funds committed to bailing out financial institutions

Country	Amount	Recovered
UK*	£2bn spent on Northern Rock rescue; £66bn spent on Lloyds and RBS	"May never be recovered"
US**	US$604.5bn	US$351.2bn, as of 19 December 2012
Europe***	€500bn in European Stability Mechanism, including €100bn for Spanish banks and €17.5bn for Cypriot banks	Still being distributed

Sources: UK Parliament's Public Accounts Committee Report (5 November 2012)*, ProPublica**, EC***

In or out?

The Volcker Rule advocates clear separation of high- and low-risk banking. Although it exempts market-making, hedging and trading in certain products and with some overseas entities, the rule's supporting text limits the exemptions.

Ring-fencing proposals are less clear-cut. Last December, the Parliamentary Commission on Banking Standards (PCBS) criticised the practice in its assessment of the Banking Reform Bill. Its Chairman, Andrew Tyrie MP, said: "The draft Bill proposes to leave the Government with too much scope to redefine the location of the ring-fence... [which will] provide an incentive for bank lobbying." He said that the independence of ring-fenced banks from other parts of the same banking group would not be sufficient and that conflicts would arise between directors' duties to the smaller unit and the larger banking group.

Paul Volcker concurred in his evidence to the Commission, noting, on 17 October 2012, that if any exceptions were made, "The banks will say, 'Yes, we must make this exception a little bigger. This is a little awkward, and we must do it for efficiency reasons or to serve the customer'."

The PCBS proposed the option to enforce full separation and to 'electrify' the ring-fence by increasing obligations on regulators and directors to maintain the separation.

Setting the limits will affect banks massively, observes Christophe Nijdam, a bank analyst for independent equity research firm, AlphaValue. "Under Liikanen all trading activities, proprietary or market-making, need to be put in a ring-fenced subsidiary," he says. "If that were in place for BNP Paribas in 2011, it would have had to put 13% of its total net banking income in that subsidiary. Under the current Moscovici Rule [see box], BNP Paribas would only have to ring-fence 0.5% of its total net banking income."

The Vickers proposals would see between one sixth and one third of the £6tn aggregate balance sheet of UK banks within the retail ring-fence.

Universal banks, such as Barclays in the UK and Deutsche Bank in Germany, would be worst affected, as their models of funding would have to change, inevitably becoming more expensive. The inability to access deposits will expose investment-banking arms to the greater risks inherent in funding from the wholesale markets; although Liikanen bans using wholesale lending for support of trading operations, the Banking Reform Bill does not, possibly giving UK banks some advantage. No one is restructuring ahead of the final legislation, says Broyden, which is expected to be finalised throughout 2013.

"The big banks with operations all over the world... [will not] make any large structural changes at this time because they are not too sure which direction they should jump in," he says.

Further change is expected at the hands of lobbyists: in December 2012, US banks proposed to Congress that capital requirements should replace the Volcker Rule; the PCBS is threatening to overrule the UK Treasury if it does not consider its proposals by chairing cross-party amendments to the Banking Reform Bill; the European Banking Federation proposes that investment bank ring-fencing should take place only in the event of a default.

This pressure can be significant, as Andrew Haldane, Executive Director for Financial Stability at the Bank of England, commented last October: "As the history of the Glass-Steagall Act demonstrates, today's loophole can become tomorrow's bolt-hole, today's ring-fence tomorrow's string vest. At a minimum, this suggests the need for full and faithful implementation of the spirit as well as the letter of the Volcker, Vickers and Liikanen plans if the risk of cross-contamination is to be avoided." ■

France's Moscovici Rule

On 19 December 2012, France's Minister of Finance, Pierre Moscovici, unveiled plans for the 'Séparation et Régulation des Activitiés Bancaires', which recommended ring-fencing the proprietary-trading activities of banks, but not other trading activities, such as market-making.

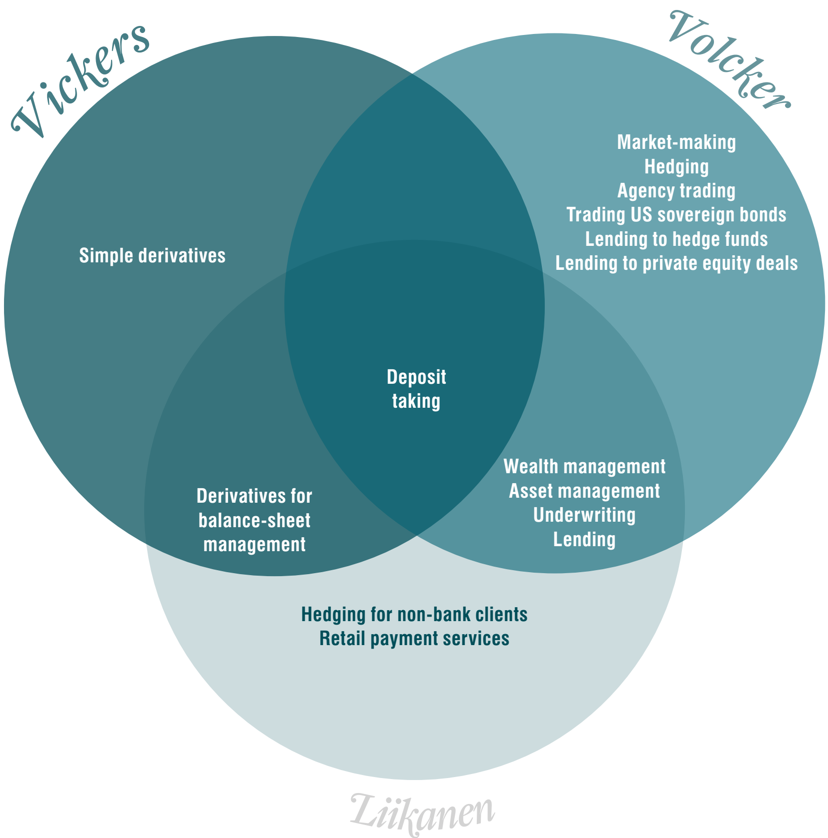
The European Banking Federation (EBF) has expressed concerns about the effect that separation of these functions will have.

"The financial crisis was triggered by the failure of a pure investment bank. We strongly believe that universal banks are more resilient than specialised banks in an economic downturn," says EBF Chief Executive, Guido Ravoet. "What is tricky in the current French approach is that – if our information is correct – the supervisor would have the discretion to decide that an activity is highly risky and therefore should be ring-fenced. Clearly, this is intervening in the private management of the bank."

John Kay, visiting Professor in Economics at the London School of Economics, adds: "The objective is not to prevent a Lehman Brothers from failing, but to allow it to fail without it mattering."

Photo: Getty

What is allowed under each regulation?



Examples of what is not allowed under each regulation

Liikanen – market-making and proprietary trading

Volcker – hedge fund investments and proprietary trading

Vickers – investment banking and proprietary trading

Golden Browne

Hugo Cox talks to Anthony Browne, Chief Executive of the British Bankers' Association, and sees him in action in front of the Parliamentary Commission on Banking Standards

THERE CAN BE few more unfortunate starts to a new job. Two weeks after Anthony Browne agreed to replace Angela Knight at the head of the British Bankers' Association (BBA), the leading trade association that created the model used in calculating and administration of LIBOR rates, the FSA fined Barclays £59m for fixing its rate submissions. With the LIBOR scandal set to rumble on – the US Department of Justice filed the first criminal charges last December – the BBA has been stripped off its LIBOR powers and Browne is faced with the task of restoring the credibility of the BBA and, in part, the sector.

Four months into the job, he has wasted little time. When Marcus Agius resigned as Chairman of Barclays over LIBOR, the BBA lost its chairman. Browne replaced him with Sir Nigel Wicks, the organisation's first genuinely independent – because non-bank – chairman, who boasts an impressive reputation for probity, having chaired the Government's Committee on Standards in Public Life under Tony Blair's Labour administration.

Browne's reforms have included substantial changes to how the BBA consults with customers and the public. He has established an Advisory Council composed of non-banking members, business leaders, academics and 'ethical leaders' to provide the BBA with independent advice about public concerns over bankers' conduct. A new consumer panel will tap the opinions of banks' customers in policy-making in order, he says, "to hear people's concerns before they become massive scandals". He has also spearheaded ongoing efforts to create a Banking Standards Board, administered independently of banks and with powers to strike off bankers in the way that the General Medical Council can ban doctors.

He who pays the piper

Support for a Banking Standards Board is important for Browne because it is hard for the BBA to impose sanctions on its members.

It is true that the BBA has expelled members in the past, notably Saderat and Persia International Bank in November 2011 over their breaches of sanctions with Iran. But it is difficult to imagine the organisation exerting authority over a major bank in this way. Of the £6.5m in fees generated by its 200 members, 59% comes from the largest five banks. The LIBOR scandal makes it even more dependent on a few big banks – the £2m it earned from calculating and distributing the LIBOR figures with Thomson Reuters will dry up when these functions are put out to tender next summer.

Browne believes that he can make up some of the shortfall from holding conferences, increasing the BBA's training business and recruiting some of the 150 banks that are not members. Yet the organisation will remain

CV snapshot

2012 – Becomes Chief Executive, British Bankers' Association

2012 – Joins Morgan Stanley as Head of Government Relations, EMEA

2008 – Becomes Policy Director, Mayor of London's Office

2007 – Becomes Director at Policy Exchange

2002 – Assumes the role of Chief Political Correspondent at *The Times*

1992 – Becomes BBC Economics Editor

1988 – Joins Booz Allen Hamilton as an analyst

1988 – Graduates from Cambridge University with a degree in Mathematics

heavily dependent on a few major donors. This is relevant because the government – notably through the Parliamentary Commission on Banking Standards – is searching for a self-regulatory component to new banking safeguards. Notwithstanding his revisionist perspective, Browne is clear that this would be a step too far for the industry's trade body. ■

The BBA

The BBA is the leading trade association for the UK banking and financial services sector, representing the sector at a legislative and regulatory level and engaging with government and the media to promote and defend the industry. Representing banks working in the UK, rather than 'British' banks per se, it is formed of 200 members from 60 countries, collectively comprising 150 million accounts and contributing £50bn annually to the UK economy. Its board comprises Browne and the chief executives of the largest commercial, retail and wholesale banks operating in the UK. With the appointment of Sir Nigel Wicks in November 2012, the BBA had its first non-banker chairman – he worked in the oil industry and then at the Treasury.

Public advocate

You would hope that a journalist of nearly two decades' experience – much of the time spent as economics correspondent for the BBC and for *The Observer* – would be on top of his brief. But, four months after he accepted the job to lead the BBA, Anthony Browne's knowledge of the sector appears positively encyclopaedic. His answers are an effusive waterfall of facts, figures and revealing anecdotes, peppered with sub-clauses of deviation, qualification and elaboration that make them at times obscure.

A few days after we meet, he treats the Parliamentary Commission on Banking Standards to an even more intense and wordy barrage of argument, data and example. It follows a lengthy written submission, much of whose content was, like the BBA's Autumn Statement submission to the Chancellor last year, offering ideas from the banking industry to spur growth, entirely unsolicited.

While his submission is dense and sometimes hard to follow, it is, crucially, contrite. He admits that the BBA has been tarnished by the LIBOR scandal, admits that, were the BBA a membership organisation for individuals, he would not want Sir Fred Goodwin in his club, and doesn't baulk at Chair, Andrew Tyrie MP's prescription for "a massive reconstruction for the BBA".

Notwithstanding his contrition, Browne's submission is forthright – even combative at times – as when he frequently speaks over Tyrie. That he is robust under fire from a peeved Parliamentary committee should come as no surprise: as a journalist he encountered his fair share of hostile environments. He forged his career as an economics reporter for the BBC and *The Observer* but his final role as Chief Political Correspondent for *The Times* took him around Afghanistan in a Blackhawk helicopter alongside Tony Blair, and into a hair-raising encounter with a young US soldier in Iraq during the aftermath of the second Iraq war.

"My car was stopped by a US soldier pointing his gun at us. I got out of my car in my bulletproof vest and, in my poshest English accent said, 'Hello, I'm Anthony Browne of *The Times*'." Apparently unsatisfied, the soldier then fired several warning shots over Browne's head. "As an economics correspondent," he recalls, "I wasn't used to getting shot at."

Some of his reporting was unscheduled. Returning from a family holiday in Canada, his wife's native country, he found himself walking down 6th Avenue in New York on 11 September 2001, when the first plane hit the World Trade Center. When he rang in to *The Observer* news desk, an eager editor sent him down to Ground Zero to speak to those emerging from the debris, bloody and shell-shocked, "many of who had just seen friends and colleagues die in front of them".

In 2007, after nearly two decades in the profession, with the offer of the job to head up the leading centre-right think-tank, the Policy Exchange, Browne was ready to move on: "There comes a time in life when, having spent all your time writing about what other people do, you want to do some things yourself."

This canny combination of flexibility and expressed contrition that he displayed in front of Tyrie's committee (his presentation no doubt drawing on his years as a political pundit) bodes well for the BBA. Unlike so many representatives of the banking industry who have faced the unrelenting interrogation of Tyrie and his colleagues, Browne seems to understand that part of the purpose of the new committee is to provide a public arena for repentance.

These political skills doubtless also served him at the Policy Exchange during a challenging year and a half, in which the charity steered a path increasingly close to the Tories. The shift resulted in an investigation by the Charity Commission after an MP complained that it had become too close to the Conservative Party.

In 2008, he took on a more active political role for London's Mayor, Boris Johnson, where his responsibilities included leading economic and business policy in the capital as, he explains, he "steered London through recession". Browne then left for Morgan Stanley last year, where he continues to be Head of Government Relations for Europe, the Middle East and Africa.

Against the clock

Barack Obama may have succeeded in averting America's plunge over the fiscal cliff, but much work remains if the President is to get to grips with US debt. **Christopher Alkan** reports

AMERICANS WHO HAD been hoping for a break from the endless debates about government finances are out of luck. Congress may have agreed a last-minute deal to avoid the fiscal cliff, but another debt deadline is looming.

Unless a $16.4bn legal limit on borrowing is raised by Congress, the federal government will run out of money to pay its bills by the end of February. At about the same time a series of automatic cuts in spending kicks in, to the tune of about $100bn a year.

At least for the time being, US debt talks are the result of self-imposed limits. Yet America's fiscal problems are very real. Indeed, relative to its wealth, the United States now owes more than the eurozone. If America's politicians fail to produce a deal soon that restrains the rise in national debt, many economists worry that the next crisis will be imposed by financial markets through a surge in borrowing costs. That would be extremely damaging to the US and global economy.

What is the debt ceiling?

Americans are still debating whether the debt ceiling is a blessing or a curse. The statutory debt limit dates back to 1917, when Congress passed the Second Liberty Bond Act. The cap itself has been gradually increased as the federal government has expanded. Even over the past decade, Congress has voted to lift the limit almost a dozen times. Many Republicans support the rule as a restraint on the tendency of governments to over-spend. Opponents of the ceiling believe it leads to constant flash points when government finances are under strain. "This can undermine confidence in the safety of US Treasury bonds," says Rudy Penner, a fiscal expert at Washington's Urban Institute, and a former chief of the Congressional Budget Office. After all, the wrangling over the debt ceiling, which has lasted nearly two years, was part of the reason that ratings agency Standard & Poor's stripped the US of its triple-A rating.

Are there ways around it?

There are even doubts over whether Congress has the constitutional authority to curb borrowing. Section four of the 14th Amendment states that the US President cannot put the validity of public debt into question. This has been interpreted by many legal experts to mean that the President is constitutionally obliged to

continue paying bondholders and so can ignore the debt ceiling. Democratic bigwigs, including former President Bill Clinton, have publicly advised Barack Obama to do just this. So far, however, the White House has said it will not take this radical step.

An even wackier solution to the debt ceiling would be to issue a trillion-dollar coin. Due to a legal loophole, the US Treasury is allowed to mint as many platinum coins as it wants and has complete discretion is assigning their value. A trillion-dollar coin – or two – deposited with the Federal Reserve could enable the

Americans are still debating whether the debt ceiling is a blessing or a curse

Treasury to continue spending without the need to issue new debt.

In reality, however, President Obama is likely to simply try to negotiate with Republicans in Congress and reach an agreement.

When should we start to worry?

This will have to happen soon. Followers of the fiscal drama will have noticed that various figures are cited for US debt. Perhaps the most revealing is debt held by the public, which the White House's Office of Management and Budget expects to hit $12.6tn in 2013. That is equivalent to roughly $40,500 for each of America's 311 million citizens. The official debt ceiling is set according to a more demanding figure. This figure also includes money the Federal Government has raided from its own trust funds – like social security – and now owes to itself. By this measure the debt is $16.4tn and at the very limit imposed by Congress.

Since the US Government continues to spend more than its tax revenues, the US Treasury is now raiding various federal pension funds and using accounting tricks to make ends meet. Its ability to use these emergency techniques is likely to be exhausted around the middle of February or the start of March this year, according to the Bipartisan Policy Center.

A second deadline also looms. As the result of a deal struck in 2011, roughly $1tn worth of spending cuts – spread over a decade – will start to kick in. These cuts will be split between the Department of Defense and other Government programmes.

Photo: XXXX

So what next?

Over the coming month, negotiations will gradually ramp up again between President Obama and the Republican leadership in Congress. Republicans, like Speaker John Boehner, will be hoping to avert further tax increases. Their goal is to cut the deficit through spending reductions. Much of the increase in US debt over the coming decade is due to the ageing population. So conservative groups like the Heritage Foundation favour trimming entitlement spending, especially by raising the age at which retirees can draw the state pension and health benefits. President Obama has been willing to contemplate spending cuts but has argued that more of the adjustment than Republicans would like needs to come from higher government revenue.

"Since Republicans have been unwilling to give way on tax increases and Democrats have been less flexible on spending cuts, it is often the deficit that tends to give," says Paul Van de Water, a fellow at the Center on Budget and Policy Priorities.

Does America really have a debt problem?

Although the current debt deadlock has been caused by a legal limit, the United States does have a long-term fiscal problem. According to data from the Organisation for Economic Co-operation and Development, America's net federal debt is now equivalent to about 86% of national income – up from 48% in 2007. That is far above the average for rich countries of 70%. What is worse, it is still rising and is on track to rise to 91% over the next couple of years.

To summarise America's financial position in 2013, according to White House figures, government revenue is expected at $2.8tn, with spending of around $3.8tn, leading to a deficit of $1tn. The debt is $16.4tn, according to the debt limit definition. The proposed spending cuts for 2013, if enacted, would amount to around $100bn.

Subtract eight zeros and an individual in this situation would have an income of $28,000 and spending of $38,000. Credit card or other debts would thus rise by $10,000 over the year. The total credit card bill would be $164,000. The proposed budget cuts would be just $100.

Deteriorating finances

The fiscal deadlines America faces over the coming months should provide an opportunity for the nation to get to grips with its worsening finances. But many fear that Congress will let debt continue to rise as a share of GDP until financial markets compel lawmakers to react. At the moment, the United States Government can borrow money for ten years at just 2% – less than half the rate of Italy or Spain. "That could change quickly if the market loses confidence," says Chris Edwards, top fiscal expert at the Cato Institute, a libertarian think-tank. "The fear is that US politicians are incapable of doing the right thing until they are absolutely forced to. By that time it will be impossible to avoid a lot of economic pain." ■

Recent history of budget talks

2011

- May – US Treasury hits the debt limit of $14.29tn. The Treasury says it can keep the Government functioning by using "extraordinary measures" that would be exhausted by August. Talks begin between Democrats and Republicans, led by Vice President, Joe Biden.
- June – Talks collapse.
- July – A default on federal debt seems only days away. President Obama and Congressional leaders agree to a deal that would raise the debt ceiling in two steps. The agreement proposes $2.4tn cuts in spending over a decade, with $900bn to be enacted immediately.
- A bipartisan super-committee is charged with sorting out the details of these spending cuts and revenue increases.
- November – The super-committee reaches a stalemate.

2012

- January – The debt limit is increased to $16.4tn.
- May – The first fiscal summit meeting is held in Washington.

2013

- January – Congress votes to make permanent most of the tax cuts enacted under George W. Bush, with the exception of those for individuals earning over $400,000 a year.

Under fire

Cybercrime presents the looming threat of a surprise 'Pearl Harbor' attack on global financial services, according to the US Defense Secretary and others. But where, and when? **George Littlejohn MCSI** gives his view

"**BIG DATA IS** the fourth factor of production," proclaimed the *Financial Times* as 2012 drew to a close. Data has indeed joined land, labour and capital as the newest element in economic activity. But that comes with a price – and a major threat. Adrian Leppard, Commissioner of the City of London Police, was straight with *S&IR* readers last year: "A reputation for professionalism and excellence can take a company years to build and a single but significant breach in data security to destroy. Good data security equates to good business – a point that needs to be recognised and acted on at a boardroom level and not left for an occasional point for discussion under AOB."

"Good data security equates to good business – a point that needs to be recognised"

Sir David Omand, former UK Security and Intelligence Co-ordinator, goes further, demanding that a "cyber fire" be lit under boardroom tables (see box).

According to Misha Glenny, author of *Dark Market: Cyberthieves, Cybercops and You*: "In humanity's relentless drive for convenience and economic growth, we have developed a dangerous level of dependency on networked systems in a very short space of time. In less than two decades, huge parts of the so-called 'critical national infrastructure' (CNI in geekish) in most countries have come under the control of ever more complex computer systems."

Such issues go way beyond normal data protection issues, such as anti-virus controls. Indeed, the anti-virus industry has what *The New York Times* described recently as "a dirty little secret: its products often are not very good at stopping viruses". Market leaders Symantec and McAfee have dropped the word 'anti-virus' from their home pages.

The bad guys are always trying to be a step ahead, which does not take much effort. At the end of last year, the consumer banking sites of Bank of America, JPMorgan Chase, Wells Fargo and others endured the largest and longest sustained denial of service attacks in history. Speaking in October 2012, as these attacks began to emerge, Leon Panetta, US Defense Secretary warned: "The collective result of these kinds of attacks could be a cyber Pearl Harbor... it would paralyze and shock the nation."

Professor Barry Rider of Jesus College, Cambridge, is Executive

Cybercrime on CISI TV and Cyber Re in the City

The Institute has two new CISI TV programmes on cybercrime based on CPD events in January, featuring Dave Clemente, Research Associate in International Security at Chatham House, and Mark Johnson, Chairman of the Risk Management Group. For details and to watch the programmes, please visit *cisi.org/cisitv*

In May, the CISI will host a special round-table discussion on Cyber Re – developments in cyber risk insurance – in London. Details will be included in the next CISI CPD programme.


Professor Barry Rider

Director of the world-renowned Cambridge International Symposium on Economic Crime and an acknowledged guru. Last year's symposium, the 30th, saw nearly 1,600 participants from around the world pass through the college. For the 2013 event, he says, echoing the Commissioner's and Sir David's views: "We have decided to focus on an issue of particular importance to all those with responsibility for preventing and reacting to the threat of serious financial crime and abuse. The resources that can be deployed in protecting the economy and institutions within are limited and it has always made good sense to involve in appropriate ways the private sector. This is not simply a matter of resources, but in many cases those at risk are best placed to take preventive measures and assist in pursuing criminals." ■

George Littlejohn MCSI is a senior adviser at the CISI.

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illustration: Getty

Cyber CEASEfire


Sir David Omand

What does the growth of cybercrime imply for financial institutions' risk management strategies? How can boards and their advisers assemble a robust strategy over, say, a five to ten-year period? Sir David Omand, former UK Security and Intelligence Co-ordinator and a former Director of the UK Government Communications Headquarters (GCHQ), has a helpful acronym: Cyber CEASEfire.

The C in CEASEfire stands for Crime. "The goal here for five to ten years out," he says, "might be to have reduced the risk to a level comparable to so-called 'shrinkage' in retail, albeit across a broader front of the economy.

"There will always be a level of crime for financial gain. But we are in a transitional era today. We all very rapidly accepted the advantages of cyber payments and pre-payment cards, cyber billing and cyber identification without making the prior investment in public education to recognise attacks and promote safe behaviour, in paying the extra to get secure software written, and for business to use forensic accountancy tools to detect fraud. Within five to ten years we could adjust our behaviours to manage the risks – like teaching country children to cross safely a main street full of motor cars in, say, 1920 and improving law enforcement to regulate the traffic and using insurance to leverage good behaviours. That will also reduce the damage from hacktivists."

The next letter, E, in CEASEfire stands for Espionage, which is a field Sir David has covered in his classic volume *Securing the State* (as well as in a 2012 CISI Fellows' Masterclass). This is a major dimension of the cyber threat today, whether against data in motion or data at rest, he warns.

Iain Lobban, the present Director of GCHQ, has suggested that 80% of security is in the hands of information owners, as it was during the Cold War.

"That means vetting of employees and good human relations management, identifying genuinely sensitive information and classifying it accordingly, installing patches and so on, keeping the information under the equivalent of lock and key, with bars on the windows and bolts on the doors," says Sir David.

The A in CEASEfire stands for Attacks, by which he means attacks that, according to Leon Panetta, the US Defense Secretary, approach the threshold of 'armed attacks' under international law.

The S in CEASEfire stands for Subversion, or the use of the internet to undermine the values of a state and the loyalties of its citizens. China and Russia (and Iran and others) are more concerned with information security than cyber security, restricting their citizens' access to global knowledge and freedom of speech. "All nations are immediate neighbours in cyberspace, now only milliseconds from each other, and the concept of a national 'information space' makes little sense," says Sir David. "But we too have limits: we legislate to prohibit paedophile activity, racially abusive material and to curb terrorist propaganda designed to incite violence, and so on."

The second E in CEASEfire Sir David reserves for Extended Deterrence against the deployment of increasingly sophisticated cyber weapons directed against the infrastructure of the nation. The five to ten-year approach he has been outlining to defend against espionage and intellectual property theft will increase confidence in protection against attacks, but will not provide sufficient defence against future advances in threat, he says. There are two very different scenarios to examine.

The first, and most dangerous, is a descent into cyber chaos should defences not improve and should advanced attack techniques proliferate so that every rogue state, criminal gang and terrorist network is capable of causing significant cyber damage. The cost could be a general loss of confidence in cyber, with devastating economic consequences.

The alternative scenario, towards which he believes we should all work, is that "we will have succeeded in raising the bar and thus reduce the number of players able to cause us existential harm to, say, ten to 15 of the most advanced nations who can devote the specialist resources to defeating even advanced defences. Some of these nations will be our natural allies; some perhaps not. But with a manageable number of players then international understanding, and perhaps even a form of mutual deterrence relationship, may be possible."

And what does the 'fire' in CEASEfire stand for? "That is short for the fire we need to light under discussion in boardrooms and government offices of this whole issue. Fire, for the chain of beacons we need to light across the land alerting 'the whole of the country' to the risk and mobilising our national resources to the task," he warns.

Making the CORRECT CALL

A senior manager has sold a financial solution to a client. Should he confess it is not the unique product it was led to believe?

PAUL IS A senior manager at Visible, a long-established firm of financial advisers that also offers investment management services and is seeking to position itself as a leading wealth manager. As part of this plan, Paul is charged with reviewing all of the businesses, investment products and services offered by Visible with a view to introducing a new investment platform to provide a class-leading proposition to its clients.

He identifies a number of potential platform providers, views their products and carries out a competitive tender. As a result, Spectral, an experienced IT provider, is chosen as being the firm most able to identify with Visible's vision and deliver what is envisaged.

Paul is pleased that Spectral has been selected and good progress is made initially. However, a number of unforeseen difficulties inevitably arise that result in some delay. As the project progresses, several additional features are required, which add further delays to the launch.

When the Visible platform is finally ready, it is launched to a largely positive reception from the investment community and a good customer response. This leads the executive of Visible to determine that its configuration of the Spectral platform represents a valuable asset that could be marketed to other users, provided they do not represent a direct threat to Visible.

> *As the project leader, Paul realises that he will be the one in the spotlight if there are any problems*

Paul is again charged with managing this exercise because of his in-depth knowledge of what the Visible platform offers and the competitive advantages it is felt that it will bring to a user. He approaches a number of suitable potential users of the platform and receives a positive response from Grey Bank, a high-profile name that does not provide direct competition to Visible.

Following a period of some intense testing, Grey Bank determines that the Visible platform, specifically customised to meet its requirements, is acceptable and Paul anticipates keenly the firm signing a formal agreement. This will be accompanied by a high-profile launch, with considerable fanfare, and Paul is pleased at the prospect, which he feels could only be positive for his career aspirations.

However, the sense of satisfaction is short lived. At an industry meeting shortly before the scheduled signing day, Paul bumps into representatives of Spectral. They tell him that on the back of their successful platform sale to Visible, Spectral has managed to conclude a good deal with Indigo Bank.

Paul is somewhat taken aback on hearing this news, since Grey Bank and Indigo Bank are similar types of organisation and therefore appeal to the same types of customer. More significant is the fact that Visible had sold its platform to Grey Bank on the basis that it offered unique advantages.

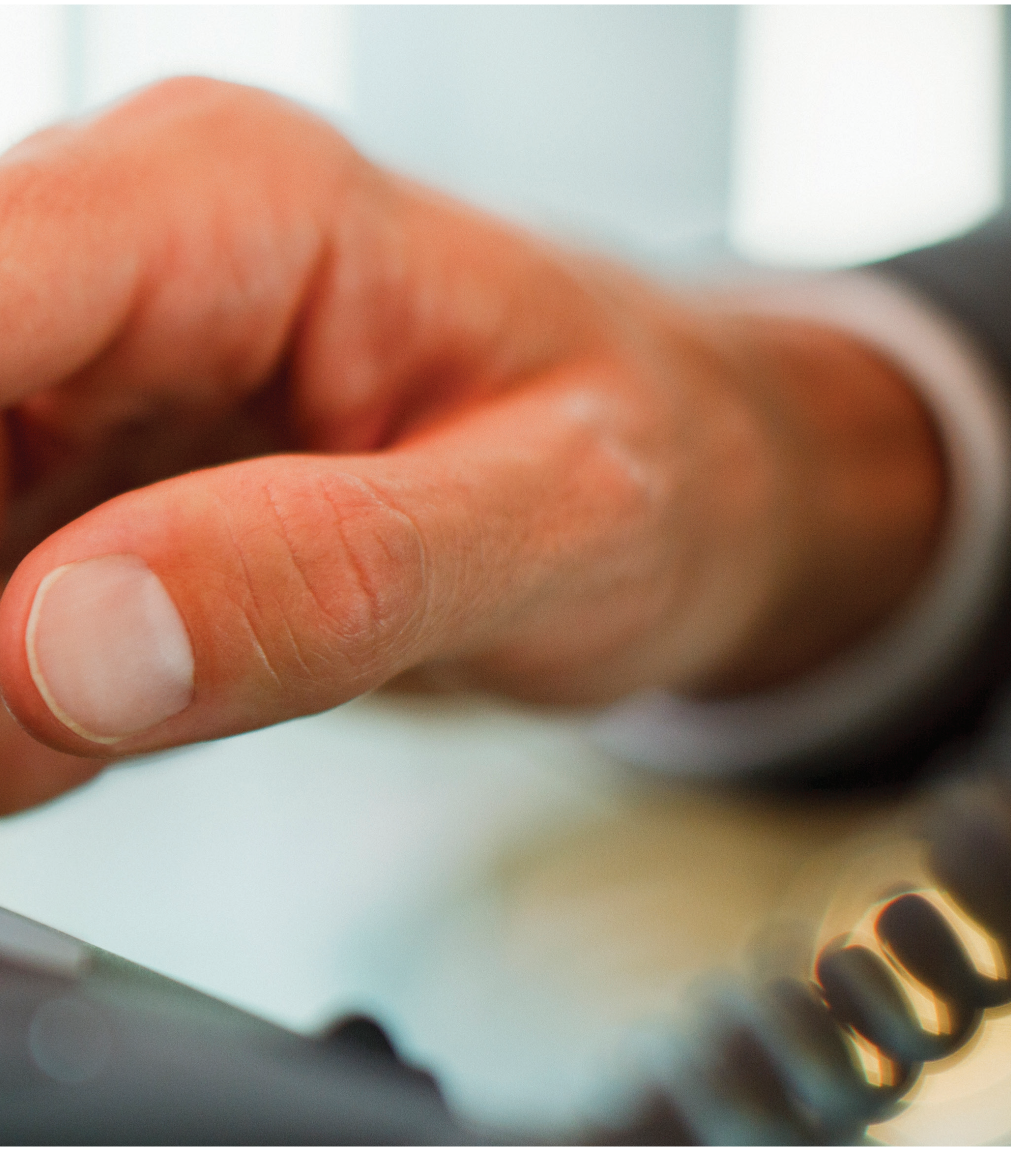


Photo: Getty

If Indigo could now offer a not dissimilar product, how might Grey Bank view its proposed agreement with Visible? Might it accuse Visible of misrepresentation, or more importantly for Paul, might Grey Bank decide not to sign the agreement, or, at least, to delay signing? Paul wonders whether he or Visible has done anything wrong and whether he should inform Grey Bank that the platform it is offering to its customers is based on a product from Spectral and that, inevitably, there will be some operational aspects that they share, even though they look quite different.

Paul is conscious of the importance that Hugo, his Director, attaches to this project and that it will earn them both great credit if it goes well. As the project leader, Paul also realises that he will be the one in the spotlight if there are any problems. Consequently, before discussing the matter with Hugo, Paul examines Visible's agreement with Spectral to see whether it contains any language that specifies, or suggests, that Spectral cannot sell its platform to anyone else without Visible's agreement. He is concerned to note that it does not.

Paul then considers the various options that he could recommend to Hugo as the best way to proceed, which he feels are:

- Hugo should immediately contact his opposite number at Grey Bank and tell them what Paul has learnt. He should point out that the Indigo Bank product would not contain any of the enhancements made by Visible, nor any of the Grey Bank customisation, leaving it to Grey Bank to decide whether to proceed.
- Visible should carry on as planned, without saying anything about the Spectral sale to Indigo, since the Grey Bank product is similar only under the skin and so no direct comparison can be made. If Grey Bank subsequently complains, and it might not, Visible can deal with that when it happens.
- Paul should immediately contact Grey Bank and, without mentioning anything specific, encourage the firm to sign and launch its new platform as soon as possible. He should warn the firm that he has heard that Indigo Bank is also about to launch a new platform, which might steal Grey Bank's thunder. ■

Visit cisi.org and let us know your favoured option. The results, together with the opinion of the CISI, will be published in the April edition of the **S&IR.**

To sell or not to sell? *THE VERDICT*

A manager at an investment bank feels uneasy about selling a complicated interest-rate swap to a client. Should he defer to his in-house specialist or trust his instincts?

This was the Grey Matters dilemma in the November/December 2012 edition of the *S&IR*. Readers were invited to vote in a poll on the CISI website for the course of action that they felt the bank manager, Alan, should take.

The results were as follows:

- encourage Philip, the client, to sign the documentation, reliant upon a reassurance from Kumar, a member of the bank's specialist swaps team, that it is in Philip's interest (4%)
- advise that Philip should not sign unless he is 100% comfortable with what he is doing (93%)
- tell Philip to sign the documentation because he (Alan) will happily unwind the transaction if anything goes wrong (0%)
- quote Shakespeare's "there is a tide in the affairs of men which, taken at the flood, leads on to fortune" and leave it to Philip to make the choice (3%).

The CISI response:

The vast majority of respondents voted for Alan, the bank manager, recommending to Philip that he should not sign the documentation unless he was 100% comfortable with what he was doing, which one might describe as the 'hindsight' option.

Few members voted for any of the other potential courses of action, each of which was designed to encourage Philip, the customer, to undertake the transaction.

Although a number of comments were made by respondents, none mentioned that the swap was not being sold in isolation, but was a condition of Philip being granted a loan. Neither did anyone allude to the fact that Alan offered to unwind the transaction if Philip, subsequently, was not happy. That offer demonstrated all too clearly that Alan did not understand the mechanics of the swap, since the unadvised costs of unwinding (breaking) a swap is a fundamental cause of most of the complaints against banks' sales of swaps.

So while we might all be alive to the issues now, can we be that confident that we would have reacted in this way, had we actually been put in the position of closing the transaction, at the time and in the circumstances when the 'misselling' was taking place?

Need to read

The latest publications and study aids supporting CISI qualifications

WORKBOOK EDITION

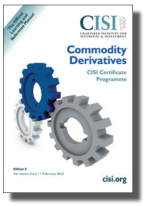
International Introduction to Securities & Investment (Arabic)

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 of 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 and 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
- principles of exchange-traded commodities futures and options
- principles of clearing and margin
- trading, hedging and investment strategies
- special regulatory requirements.

Price: £100 for combined workbook and elearning product

WORKBOOK AND ELEARNING EDITION

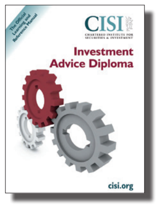
Investment Management – Certificate Programme

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 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 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 training tool, now in a new format, helps you remain up to date with regulatory developments, maintain regulatory compliance and demonstrate continuing learning. This popular online learning tool allows self-administered refresher testing on a variety of topics. Modules are frequently reviewed by practitioners and new topics are added to the suite on a regular basis.

The product currently consists of more than 40 modules, including:

- anti-money laundering
- training and competence
- the UK regulatory structure.

Use of *Professional Refresher* is automatically recorded on an Institute member's CPD log as Active Learning under the CISI CPD scheme.

Price: Free for all CISI members, otherwise it costs £150 per user. There are also tailored module packages available for individual firms.

External specialists

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

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

The CISI would particularly welcome applications from specialists to 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

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

28 FEBRUARY Mifid II and the New Regulatory Structure† £500

5 MARCH SARs & Court Orders† £500

12 MARCH Suitability & Appropriateness: Avoid Misselling† £500

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

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

12 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*

Regional roadshows

The CISI is running another series of roadshows across the UK, this time on CPD and professionalism: embedding the new standards for members. These events will help firms and practitioners to remain fully compliant with the requirements of the Retail Distribution Review and will focus on maintaining CPD in the new regime.

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*

Branch events

21 FEBRUARY Bank of England Update
East Anglia: National Skills Academy, St Andrews House, St Andrews Street, Norwich

25 FEBRUARY Bank of England Update (joint event with ACCA and CIMA)
Yorkshire: Hallmark Hotel, Ferriby High Road, North Ferriby, Hull

27 FEBRUARY FATCA Update†
Jersey: The Royal Yacht, Weighbridge, St Helier, Jersey

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

28 FEBRUARY Update from the Regulator†
Isle of Man: Best Western Palace Hotel, Central Promenade, Douglas, Isle of Man

1 MARCH Annual Dinner
Jersey: L'Horizon Hotel & Spa, La Route de la Baie, St Brelade, Jersey

6 MARCH Annual Dinner
East Midlands & Lincoln: Devonshire Place, 78 London Road, Oadby, Leicester

16 MAY Annual Dinner
Liverpool & North Wales: Crowne Plaza, Nicholas Place, Princes Dock, Pier Head, Liverpool

6 JUNE Charity Golf Day for Yorkshire Air Ambulance
Yorkshire: Leeds Golf Centre, Wike Ridge Lane, Leeds

6 JUNE Annual Dinner
Yorkshire: Doubletree by Hilton, 2 Wharf Approach, Granary Wharf, Leeds

6 JUNE Annual Dinner
Birmingham & West Midlands: Regency Hyatt, 2 Bridge Street, Birmingham

27 JUNE Annual Dinner
East Anglia: Norwich Cathedral, Norwich

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

RDR ANNUAL CPD

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

Professional forums

Members' event


Brandon Davies


Nicola Horlick


Sebastian Dovey

The State of Wealth Management: A Bottom-Up View of this Top-Down World. That's the topic that will be under scrutiny at the next meeting of the CISI wealth management professional forum.

Giving their expert views to forum Chairman Christopher Jones-Warner, Chartered FCSI, will be Brandon Davies, Senior Independent Non-Executive Director, Gatehouse Bank; Nicola Horlick, Chief Executive, Bramdean Asset Management; and Sebastian Dovey, Managing Partner, Scorpio Partnership.

Event details:
13 March 2013
12.30pm – 2pm (a light lunch will be served from 12.30pm – 1pm).
Freshfields Bruckhaus Deringer, 26-28 Tudor Street, London, EC4

The meeting is the latest event in a busy start to 2013 for the forum. In January, key approaches to successful value investing were examined by Justin Lowes, Managing Director, Lowes Wealth, while February saw Nicholas Hungerford FCSI, CEO and Co-Founder, Nutmeg.com, talk about the future of wealth management as online technology advances.

To book your place at next month's event or to join the 900 members already signed up to the mailing list of the wealth management forum, please email *pfs@cisi.org*.

The wealth management forum is one of seven forums run by the CISI. The others cover compliance, corporate finance, financial technology, Islamic finance, operations and risk. Each of these discussion groups meets at least once a quarter in London to debate current issues and hear presentations from industry speakers. Events are generally held at midday, with a light lunch provided and opportunities to network. For more information about forthcoming meetings, visit *cisi.org/pf*

MILESTONE

The Institute welcomes 100th Corporate Supporter

NW Brown has become the 100th CISI Corporate Supporter. This means that the firm has agreed to endorse the CISI Code of Conduct, link staff career progress to relevant Institute qualifications where appropriate and support staff to take CISI exams and engage in CPD.

Based in Cambridge and Norwich, NW Brown is particularly known throughout East Anglia as a discretionary portfolio manager, but also offers a comprehensive financial and retirement-planning service, along with advice to companies on employee benefits.

Corporate Supporters are offered exclusive analysis of employee performance and progression in CISI exams, from benchmark level to higher, more complex qualifications. In addition, they are able to use enhanced tools to log the CPD of staff who are CISI members.

NW Brown Chief Executive, Marcus Johnson, Chartered FCSI, said that the benefit to the firm of becoming a Corporate Supporter was both "immediate and substantial".

"The CISI system allows our compliance officer to keep a much better track of the professional development of our staff, and saves huge amounts of time for highly qualified investment managers in recording their progress," he added.

For information about becoming a CISI Corporate Supporter, see *cisi.org/corporate*

SOCIAL EVENTS

TD Waterhouse wins football tournament


The winning team from TD Waterhouse

When it comes to a football team with a watertight defence, look no further than the winners of a tournament run by the CISI Yorkshire branch.

A team from TD Waterhouse in Leeds won all of its five games at the five-a-side tournament, scoring a total of 23 goals and conceding none.

TD Waterhouse beat a side from Halifax Share Dealing in the final 3-0, and boasted the player of the tournament, Jermaine Ranger.

Other firms represented at the event, in Leeds, were defending champions, Redmayne-Bentley, Fyshe Horton Finney and Aviva. The tournament, being held for the second time, was sponsored by Kames Capital.

SELECT BENEFITS

Escape to the sun

Why not swap the cold and wet weather of Britain for the tropical temperatures of the Bahamas, the Caribbean or the Mediterranean?

By booking a holiday with Travellers Advantage, CISI members can save up to 10%, in addition to any discounts or offers from the major travel companies, such as early booking discounts, last-minute deals, extra free nights, upgrades and free child places. What's more, Travellers Advantage will not charge you any credit card or booking fees on whatever holiday you arrange.

Members enjoy an average saving of £214* on holidays when booking through Travellers Advantage. The deal is offered as part of the CISI Select Benefits package.

View holidays online at CISI Select Benefits via *cisi.org/memberlogin*

*Terms and conditions apply. See website for further details. Correct at time of going to print. Offers subject to change without notice. Average saving based on all member bookings to November 2012. CISI Select Benefits is managed on behalf of the CISI by Parliament Hill Ltd of 3rd Floor, 127 Cheapside, London, EC2V 6BT. Neither is part of the same group as a provider.

Membership admissions and upgrades

MCSI
ACPI
Jeremy Trabaud
Alder Ltd
Alasdair Kyle
Alexander Forbes
Leslie Dolding
Arena
Peter Thompson
AUB.KG
Ranjeet Sandhu
Barclays
Gareth Allan
Henry Fischel-Bock
Simon Lister
Graham Macleod
Stuart Paterson
Charles Proger
Daniel Scull
Kevin Shone
Scott Stewart
Dionne Thomas
Bestinvest
Sachin Amin
Andrew Rees
BPP
Paul Howman
Brewin Dolphin
Marcus Low
Mohammad Nokhasteh
Simon Oliver
Charles Stanley
Nicholas Green
Peter Truswell
Cornelian
Grant Thomson
Corvus
William McEwen
Coutts
Peter Bolland
JohnDavey
Nathalie Degans
Philip Evison
Paul Ingram
Quentin Marshall
Duncan Sanders
James Sharpe
Deloitte
Loukas Anastasiou
Deutsche Bank
Ian Hill
FXCM Securities
Julian Charles Clark
Daniel Lowe
Hargreave Hale
Xi Chen
Hottinger & Co
Giles Heseltine
HSBC
Lara Chamas
Ellen Dixon
James Tulloch
Investec
Bryan Burrough
Ipes
Chelsea Lamb
JM Finn
Richard Smith
London Stone Securities
Bob Roberts
McInroy & Wood
John Marshall
Charles White
Merrill Lynch
Petr Vycpalek
Partners Capital Investment
John Collis
Professional Capital
George Kapositas
Prudent Wealth Management
Euan Rae
Rathbone
Adam Jones
RBC
Thomas Graham
Shehreen Quayyum
Redmayne-Bentley
Alexander Buck
Seven
Odran Rochford
Mark Sheerin
SG Hambros
Claire Geddes
Samik Mukherjee
Paul Stappard
Duncan Watkins
Smith & Williamson
Andrew Peacock
Fleur Fielding
UBS
Andrew Aitken
Amer Al-Baho
Diane Alexane
James Allaway
Matthew Allin
Matthew Allison
Shona Baijal
Bhupinder Bamrah
Neil Bantel
Samia Bayou
Martyn Begbour
Emre Belge
Timothy Bell
Alice Bernard
Vikas Bhansali
Michael Bishop
Amit Biyani
Thomas Blanchfield
William Boyd-Carpenter
Ayla Bozkus
Thomas Camber
St John Charlton-Meyrick
Anuj Chhabra
Robert Chitayat
Claude Cochin De Billy
Anthony Conway
Ashley Coombes
Nicholas Davis
Daniela Dotti
Helen Dwyer
Jeremy Eakin
Timothy Eastwood
Paul Emes
Erez Erlbaum
Jacques Favre
Toby Fitzgerald
Edward Foster
Stanley Freedman
Robert Gibbons
Markus Grossmann
Sanjeev Gupta
Ahmed Hammouda
Anna Magdalena Haslinger
Craig Gregory Howe
Nina Irwin
Donald Jackson
Charles Jenkins
Stephen Jenkins
Rory Jones
Pradeep Kachhala
Howard Kemp
Timothy Kent-Robinson
Claire Kerr
Neil King
Alisa Kletskaia
Gautam Kumar
Colette Lagueux
Jonathan Lanceley
Sara Lau
Patrick Lewis
Kathleen Lumetta
Colin Malone
Nicholas Mandrinos
Steven Marrocco
James Marti
Andrew McCulloch
John McGrath
Caglar Meric
Richard Moller
Samuel Moon
Michael Sean Moore
Martin Mortensen
Prateek Nayyar
Wayne Newlands
John Nicholas
Marina Nikoloska
Ebru Ozsezgin
Alexios Pateras
Andrew Pereira
Benedicte Perrier-Dordain
Giles Pretor-Pinney
David Price
James Raeburn-Ward
George Rooke
Svetlana Rozanova
Harvinder Minoo Sahni-Court
Aditya Sarin
Victoria Sheremet
Jonathan Sherlock
Sergey Silkin
Ilya Solarev
Marcus Stewart
Tracy Tallett
TijenTaraf Sangrithi
Geoffrey Tucker
Kathryn Uhde
Rebecca Van Dijk
Rudolphe Vandaele-Kennedy
Karen Vardy
Marcus Ward
James Whittaker
Oliver Wilson
Alexander Wood
Phillip Wood
Kevin Woodward
Neil Wright
Dmitry Zorov
Vestra Wealth
William Townrow
Zoe Vucicevic
Walker Crips
Oliver Brind
World First
Harriet Mitchell

ACSI
AJ Bell Securities
Philip Firmin
Adam & Co
Martin Young
Bank Insinger de Beaufort
Ajay Ahuja
Ganesh Krishnamurti
Bank Leumi
Sarah Ryman
Barclays
Daniel Green
Daniel Nelham
Philippe Pollet
Timothy Rigby
BPP
Michal Bartek
Adam Rackley
Brooks Macdonald
Richard Wayne-Wynne
Canada Life
Lin Impett
Central Markets
Dean Grehan
Clariden Leu
Joao Vinagre
Collins Stewart
Lucy Edwards
Adrian Francis
Lawrence Peterman
Victor Polak
Debashish Mintu Saha
Tony Tharian
Commerzbank
John Langford
Coutts
Ashkan Anbari
Andrew Beeney
Daniel Bird
Andrew Bradbury
Martin Buckley
Peter Burke
Robert Burton
Nicholas Campbell
Paul Chester
Anna Cole
Howard Cornwell
David Cullen
Jonathan Derbyshire
Raymond Eugeni
John Goss
Ali Hammad
David Hawley
James Hill
Paul Hook
Inderjeet Hora
Rebecca Hughes
David Hume
Steven Hutchings
Andrew Jackson
Adrian Jones
Anthony Jones
Nicola King
Julian Lamden
David Mallows
Riaz Mansha
Lyndon Massey
John Newman
Jean Olivari
Alastair Rawlinson
Christopher Reah
Jason Ricketts
Anthony Robinson
Brian Robinson
Christina Rogers
Lilian Simerly
Nicola Stephens
Camilla Stowell
Paul Summerell
David Thompson
Jason Trolley
James Tuckett
Christine Wadley
Adrian Watson
Neil Weston
Phillip Wood
Peter Wilson
Credit Suisse
Amira Halna Du Fretay
Dial Partners
Arthur Liu
Eden
Roy Clouse
Martin Guilbert
Sara Taylor
EFG
Alexander Broome
FuturesTechs
Liam Roberts
Fyshe Horton Finney
Abdullah Samiul Siddique
Infinity Trust
Afolabi Adejumo
Ingenious
Craig Wright
IPS Capital
Jonathan Fennell
Jupiter
Benjamin Eaton
Lloyds TSB
Paul Keys
Lombard Odier Darier Hentsch
Antony Rayen
Marlborough
Sarah Sampson
MillenniumIT Software
Chinthaka Thilakarathna
Northern Trust
Stephen Kilgallon
Pershing
Fiona Dewar
Prime Markets
Richard Clegg
Dafydd Davies
Jonathan Roychoudhury
Quilter
Andrew Gray
Redmayne-Bentley
Stuart Jackson
Gordon Humphries
Rowan Dartington
Timothy Cockerill
Royal Bank of Canada
Tetyana Blazhko
Royal Bank of Scotland
Minerva Avellano
Duncan Sandbrook
Securities & Exchange Commission
Chinthaka Nirmal Priyankara
Seven
James Martin-Redman
Shareserve
Omar Chaudry
Shepherd & Wedderburn
Christopher McGill
Simple Investments
Mark Allen
Barry Harrison-Fudge
Smith & Williamson
Jason Barlow
Joseph Bond
Henry Burrell
Andrew Carver
Jill Montgomery
Stocktrade
Morag Davidson
UBS
Breda Adams
Imran Ahmad
Zahia Benatia
Annett Bieri
Juan Pablo Cortes
Ben Cossey
Lloyd Cossins-Price
Robert Evans
David Fagan
Mark Goddard
Toby Harris
Jan Hofmann
Toby Johnson
Asif Khan
James Kimalat
Perhad Merwanji
Edward Price
Phillip Scurlock-Davies
Sharon Slingsby
David Soustiel
William Thompson
David Van Panhuys
William Waugh
Alexander Wilson
Scott Young
Unigestion
Magdalena Rodriguez-Cotman
VSA Capital
Innes Douglas Youngson
Walker Crips
Usman Aslam
Wallwood
Andrew Mulligan
Others
Akila Induwara Atapatthu
Mahmoud Omar Mahmoud
Hashem
Ian Mawson
Safrin Sadik
W.A.Nirmal Welikanna

Chartered FCSI
AXA
Neil Cooper
Bestinvest
Matthew Chambers
Richard Francis
Caroline Gibson
Stephen Thomas
Brewin Dolphin
Matthew Brown
Victoria Tilstone
Charles Stanley
Marie Alford
Angela Holt
William Le Blanc-Smith
HSBC
Garo Karabeyekian
IQS Financial
Bryan Smyth
JM Finn
Simon Tufnell
Quilter
Yen Chang
Rathbone
James Ward
Smith & Williamson
Neil Joss
Spear's
Frederick Barker
Thesis
John Devine

Chartered MCSI
AIG
Henry Dobbin
Barclays
Andrew Elliot
Becketts
John Sangster
Brown Shipley
David Currier
Martyn Percival
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City Equities
Kyriacos Panayides
Phillip Harbage
Investec
Andrew Coles
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Ian Marsden
Stockdale Asset Management
Alan Duff
TD Waterhouse
Matthew Keay
The Share Centre
Elizabeth Rae
UBS
Michelle Bates
Walker Crips
Jennifer Lomas
WH Ireland
Christopher Grant
Other
Stefan Palenski

This list includes membership admissions and upgrades from 23 October to 9 November 2012

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

Paul Snell MCSI has experience of more than one type of bull market. **Lora Benson** reports

Following the herd

Paul Snell MCSI

VARIETY IS THE spice of life for Paul Snell. After a busy day working in the City, he returns home to a very different challenge – tending his herd of pedigree Hereford cattle.

Paul, Head of Compliance at Tower Trading GRP Ltd and Tower Broking Ltd, realised a lifelong ambition when he took up farming, after buying a smallholding in Buckinghamshire.

He established his herd, which he named the Lowergrove Herefords (Lower Grove Barn being his farm address) by buying two in-calf cows from a leading livestock breeder. Six years on, Paul now tends to 12 cattle, including eight breeding females, and has enjoyed considerable success displaying cattle at local agricultural shows.

Paul says: "This is something I've wanted to do from the age of eight. I've always had an affinity for animals and my interest in cattle was fuelled through spending a number of holidays on dairy farms during my childhood."

He took the plunge into the world of pedigree cattle breeding only after spending years learning the ropes from friends involved in farming. Paul read livestock husbandry and industry papers and studied pedigrees to help understand what would be necessary to establish himself in the world of cattle breeding and showing.

"Deciding to become involved in pedigree cattle breeding can be an expensive and time-consuming hobby," he says. "You need land, buildings, machinery, energy and a way of organising your career and your hobby.

"I get up at 5am on weekdays and spend an hour checking and feeding the cattle before going off to work. When I get home in the evening, I then look in on them again. It's a big commitment but I don't see it as a chore as it is such a massive interest and I really enjoy having such a great contrast in my life.

"However, I couldn't have achieved my ambition without the friendship of various skilled people who would drop everything to see me through any troubles that occur – you can't do it on your own."

Paul Snell and partner, Lynn, display prize-winning Lowergrove Diadem and Lowergrove Blossom at the Oxfordshire County and Thame Show

Paul says that in order to begin the pedigree breeding process, identifying the cow families to make up the foundation stock of a new herd is important. They must be sourced and bought, a registered holding number is required and a herd number from the Department for Environment, Food and Rural Affairs. To breed and then show pedigree animals, the owner is also required to be registered with the relevant breed society, in Paul's case that is with the Hereford Cattle Society.

Paul says a good breeder has to formulate a strategy to eventually produce the animal that they would optimally like to own.

"This consists of studying the animals individually and as a herd to identify the weaknesses and the strengths, then searching for a bull that will hopefully correct these faults. This is an exercise in building blocks and one bull rarely fixes everything."

When showing livestock, Paul says that a calm attitude, patience and an affinity with the animal is necessary.

"Being able to show the animal, not oneself, has to be learned, and it is a skill to fade into the background. That is something I am still striving to achieve, although I am proud to have picked up awards for Reserve Female Champion at three shows and Male Champion on another occasion."

One of Paul's fondest memories of his farming career is when, while he was working in the City, a neighbour in Buckinghamshire volunteered to watch over a cow that was close to giving birth. "I received hourly photos to my mobile phone of the cow's rear end to establish if the calf was to be born imminently," he recalls. "I then received an excited call and further pictures to say the birth had started.

"I get up at 5am on weekdays to check on and feed the cattle before going off to work"

Returning home, I changed, then addressed the situation, using calving ropes to reach inside the cow and attach loops to the feet. I delivered a strapping bull calf with the aid of my neighbour, who then thanked me for the best experience of his life... all this while his nine-year-old son stood watching." ■

For more information, visit lowergroveherefords.com

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