SECURITIES & INVESTMENT JULY/AUGUST 2013

# REVIEW

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


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Securities & Investment
JULY/AUGUST 2013

# REVIEW

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CISI OPINION

*The Parliamentary Commission on Banking Standards recently published its findings on professional standards and culture in the UK's banking sector. How should the industry react?*

# Banking reform:
## AN OPPORTUNITY MISSED

**EVERYONE CONNECTED WITH** the City was eagerly awaiting the publication of the report of the Parliamentary Commission on Banking Standards, the Tyrie Commission, and, at nearly 600-pages, when it landed it did so with a thud. That's almost the loudest sound it made. Apart from the predictable media focus on the headline-grabbing recommendations to jail bankers and defer bonus payments for up to ten years, reaction so far has been building while the Government's response has, we believe, been equally underwhelming.

The CISI was disappointed that, despite days of personal testimony and reams of written evidence, the recommendations relating to 'Banking Standards', which is what the title of the commission had led us to anticipate, were rather generalised. Indeed, they were difficult to follow in this respect, referring variously to a 'professional body' and a 'professional standards body' without specifying what they had in mind. It took one of the committee members, Mark Garnier MP FCSI, to clarify that the Commission is seeking an independent professional standards body (rather than a new professional body for banking) which could go a long way towards instilling integrity and professionalism into the financial services industry.

Clearly, any steps to broaden and strengthen the Financial Conduct Authority (FCA) licensing regime must be welcomed. This is particularly so given that the committee was entirely unambiguous in expressing its views about the inadequacies of the present Approved Persons regime. However, we do not believe this is sufficient and we would be especially encouraged by serious investigation of the merits of an independent standards board, about which a number of significant bodies (including the CISI), representing all shades of opinion in the industry, have held discussions.

Equally, it is not easy for us to understand the commission's stance on 'professional bodies', where it opines that "it is questionable whether the business of banking possesses sufficient characteristics of a profession to lend itself to direct control through a professional body". While the Chancellor and others had offered the structures of the medical and legal professions as possible models for consideration, those professional bodies, including the CISI, with members working in financial services had offered little encouragement in that direction, recognising that the industry has an independent regulatory body in the FCA.

However, the CISI has held discussions about the merits of an independent standards board, somewhat analogous with certain aspects of the Financial Reporting Council. We believe that such a model is worthy of serious consideration, particularly where it can be formed by building on existing tried and tested models. The CISI has a significant number of members employed in banking and offers some 17,000 exams each year to employees of banking groups. Consequently, we have a significant interest in the shape and nature of any emerging 'banking body' where we believe that our track record speaks for itself.

> *An independent standards board for bankers is worth serious consideration*

We would stress that, whatever structure is decided upon, it is essential that those parties affected, the banks, accept that they must be active participants in its implementation without seeking to influence it to their benefit and that the regulator is comfortable that the body does not in any way undermine any of its regulatory powers and responsibilities. It should complement not compete.

In addition to our disappointment at the lack of firm recommendations regarding the way forward, we are somewhat perplexed that yet another opportunity may have been lost to mandate the same requirements, in terms of professionalism, for those undertaking wholesale banking and investment activities as are required for retail financial advisers.

After all, the LIBOR scandal, which revealed a widespread and deliberate disregard of professional norms and a disquieting failure by those involved to understand the impact that their cynical behaviour would have on the banking industry's reputation, was a product of personal failings within the wholesale banking environment. Removal of this anomaly would represent a clear demonstration to the public that all bankers are required to conform to the same high standards.

It is a shame that, in the scramble to meet the popular desire to see bankers in handcuffs, the commission is in danger of violating a fundamental principle in English law by reversing the burden of proof and so assuming that executive as guilty unless they can prove their innocence.

This is a huge mistake, taken for consideration of expediency. Why stop at bankers (assuming for a moment that it will be possible to define the scope of what a banker actually is)? Why not apply this guilty-until-innocent principle to others in finance, or better still to journalists or even politicians? We are all in favour of jailing reckless people, regardless of their occupation, but we don't also fix the result by changing the principle that is the cornerstone of our legal system. ■

# Upfront News and views from the CISI

PARTNERSHIPS

## MOUs signed with European securities institutes

*From left, Kevin Moore, Chartered MCSI, CISI Director of Global Business Development, with SwedSec CEO Katarina Lidén and board member Klas Danielsson. Right, Kevin shakes hands with DSI Managing Director Jerry Brouwer*

**The CISI** has signed separate agreements to increase opportunities for co-operation with the Swedish and Dutch securities institutes.

SwedSec Licensiering (SwedSec), with 13,000 active and 3,000 passive members, is the central organisation for co-ordinating qualifications and compliance with rules among professionals in the Swedish securities market.

The Dutch Securities Institute (DSI) is an independent foundation which promotes and monitors the integrity and reliability of financial services providers and compliance professionals that have met its standards for screening, integrity and educational requirements. It does this by granting a DSI registration to more than 6,000 qualified experts who must also subscribe to its code of conduct.

SwedSec and DSI are the first professional organisations in northern Europe with which the CISI has aligned itself.

Kevin Moore, Chartered MCSI, CISI Director of Global Business Development, said: "There are many areas of mutual interest including industry standards, professionalism, portability of qualifications, integrity and ethics."

Katarina Lidén, CEO of SwedSec, said: "This programme of co-operation is an important step towards establishing common grounds for qualifications on an international level."

Jerry Brouwer, Managing Director of DSI, said: "In the CISI we found an organisation which shares the same ideas about integrity and professional standards in the financial industry."

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*,
Your article by Beth Holmes on giving bank shares to the public, 'A Spoonful of Sugar' (June issue), ends by pointing out the need for more competition in retail and commercial banking, with a comparison to Germany. The manner of the sale or giveaway of RBS and Lloyds ownership could make a big difference to UK banking competition. According to the Independent Commission on Banking, "On the supply side, core markets are concentrated – the largest four banks account for 77% of personal current accounts and 85% of SME [small and medium-sized enterprises] current accounts." Benefit calculations for UK taxpayers should include economic benefit to industry and consumers of a healthier and more competitive industry. If the structure of the UK banking industry were more similar to the US or Germany, there would be more like 1,000 to 1,500 UK retail and commercial banks.

In February 2009, I suggested to the Associate Parliamentary Group on Wholesale Financial Markets & Services that the Government rather consider acquiring the outstanding 18% of RBS completely, but immediately privatise in many slices – perhaps 100 smaller banks. For example, the Government could float a small bank based around a portfolio of Newcastle loans and mortgages, and another around a portfolio of Somerset loans and mortgages. Early slices could be keenly priced 'good' risks, encouraging take-up, as was done in the mid-1980 privatisations. Any remaining hard-or-unable-to-sell slices would be equivalent to a 'bad bank'. The end result would be privatisation into a much more competitive UK retail banking industry of benefit to customers and shareholders.

*Professor Michael Mainelli, Chartered FCSI, Executive Chairman, Z/Yen Group*

ISLAMIC FINANCE

## Students undergo training in Singapore

*Students at the Madrasah Aljunied Al-Islamiah learn about Islamic finance*

**A ground-breaking** CISI qualification is helping to prepare students at a Singapore institute of Islamic learning for a career in the Islamic finance sector.

The Madrasah Aljunied Al-Islamiah has launched a finance and Islamic banking programme built around the Islamic Finance Qualification (IFQ).

A first group of 36 students recently sat for the IFQ, which is a globally recognised benchmark qualification that covers finance from both a technical and a Sharia perspective.

The Aljunied Al-Islamiah is the first of six Islamic learning institutes – madrasahs – in Singapore to run such a programme.

The IFQ is being taught at the madrasah by tutors from CISI-accredited training provider Five Pillars.

Raj Mohamad, founder and Managing Director of Five Pillars, said: "There is a shortage of talent in the pipeline in Singapore to work in the growing Islamic finance industry. This initiative is helping to equip students with the skills to secure a career in the sector."

The students also got to meet Islamic finance professionals through visits to institutions such as Kuwait Finance House and the International Centre for Education in Islamic Finance (INCEIF) in Malaysia.

# 86%

The percentage of nearly 700 respondents to a CISI online survey who feel that it will be at least five years before the banks win the confidence of the country. To take part in the latest CISI survey, visit **cisi.org**

PUBLICATIONS

# S&IR to launch academic journal

**Cutting-edge** research into financial services will be delivered in a new quarterly academic journal that will be published in the *S&IR*.

The 12-page edition will feature original blind-peer-reviewed papers related to wealth management, capital markets and banking.

### About the Editor

Professor Moorad Choudhry is IPO Treasurer at the Royal Bank of Scotland. He is Visiting Professor at the Department of Mathematical Sciences, Brunel University; Visiting Professor, Department of Economics, London Metropolitan University and Visiting Teaching Fellow, Department of Management, Birkbeck, University of London. Professor Choudhry is Managing Editor of the *International Journal of Monetary Economics and Finance*, author of *The Principles of Banking* and a member of the CISI Editorial Panel, which chooses content for the *S&IR*.

CISI members are invited to get involved by putting themselves forward as potential authors.

Professor Moorad Choudhry FCSI has been appointed by the CISI as Editor of the journal, to be launched shortly, which will be entitled *InCISIve*. He will chair a panel of practitioners and academics who will choose and commission content.

"The creation of this academic journal is an important step forward for the CISI and I'm privileged to be appointed as its Editor," said Professor Choudhry. "Our vision is for *InCISIve* to establish itself as the research publication for the securities and investment industry, regarded at the level of peer-reviewed titles such as the *Journal of Finance*. The journal will act as a centrepoint for the generation of practitioner-led and practitioner-orientated research, whilst emphasising a robust and rigorous analytical approach.

"I hope our members will find the journal interesting, informative and an excellent way to maintain their competence. *InCISIve* will provide an opportunity for members to put forward their own research papers for consideration for publication to a worldwide audience and the CISI looks forward to receiving contributions."

**Call for papers**

CISI members are invited to submit to the Institute for consideration papers on any aspect of wealth management, capital markets or banking.

Articles must be:

- Original work and be previously unpublished
- Between 1,500 and 3,000 words in length and accompanied by an abstract of 80-150 words.

All papers submitted will be refereed by the journal editorial panel or its recommended reviewers.

For further information about the academic journal, including submission guidelines, see *cisi.org/academic*

Got a query? Contact CISI Communications Editor Richard Mitchell: email: *richard.mitchell@cisi.org* or call *+44 20 7645 0749*

PROFESSIONAL REFRESHER

# Regulation and conduct risk

**Regulation through** the creation of rules alone is not enough to protect consumers or markets. Regulatory thinking has, therefore, had to evolve from treating customers fairly to principles-based regulation, then outcomes-focused regulation and now on to conduct risk.

Conduct Risk is a new module added to the CISI's Professional Refresher online learning system that examines this key issue for the financial services sector. It looks at how conduct risk is managed, the regulatory rules and principles and the powers used to police it.

Professional Refresher is free to members of the CISI.

Visit *cisi.org/refresher, and see page 26*, for more information

NOTICE

# Report and accounts

**CISI members** will shortly be able to access the Institute's 2012/13 Report and Accounts online at *cisi.org/reportandaccounts*

If you would like a hard copy, please contact *reportandaccounts@cisi.org*

FUNDS PROCESSING

# CPD seminar held in India

**CISI external** specialist Mark Seaman, Chartered FCSI, delivered a CPD event for the Institute while on business in India.

Mark, a London-based management consultant in fund administration, gave a talk that looked at global trends in funds processing and particularly at developments in transfer agency and UCITS. It took place at the office of Cognizant in Chennai, a long-term supporter of the CISI, and was attended by a number of the firm's directors and senior managers. Personnel from other offices of the firm took part via a video conference link-up.

Mark, Deputy Chairman of the CISI financial technology professional forum, compared his experiences of funds processing in both India and Europe.

He highlighted the huge volumes handled in India, around 50 times greater than in Europe, and the opportunities available to European administrators for outsourcing back-office work.

"India has an awful lot to offer the financial services companies in the UK in terms of partnerships," said Mark.

Sachin Chaudhari, Associate Director at Cognizant, said he was delighted with the session.

Kevin Moore, Chartered MCSI, CISI Director of Global Business Development, said: "It is a great opportunity for us to run CPD events in different parts of the world when individuals like Mark volunteer their services while on their travels. It very much emphasises the CISI's international dimension."

*Mark Seaman, Chartered FCSI, delivers a talk covering developments in transfer agency and UCITS*

ANNUAL DINNERS

# CISI events raise £2,000 for charity

*From left: Roy Adams, Chartered FCSI, CISI Client Relationship Manager, Liverpool & North Wales Branch President Jon Walker, Chartered MCSI, broadcast journalist John Sergeant and Edward Brunel-Cohen MCSI, CISI Global Director of Finance & IT*

**Annual dinners** held by two CISI branches have collectively raised more than £2,000 for charity.

At the Liverpool & North Wales dinner, more than £1,000 was collected for the North West Cancer Research Fund. The charity's Chief Executive, Anne Jackson, was among more than 100 guests who attended the event at the Crowne Plaza in Liverpool.

Guest speaker was John Sergeant, broadcast journalist and former contestant on BBC's *Strictly Come Dancing*.

The event was sponsored by BNY Mellon Asset Management International Ltd, Baillie Gifford, BlackRock, ETF Securities and UBS Asset Management.

The Birmingham & West Midlands dinner was attended by more than 100 guests. They were entertained by two magicians, including Ben Hanlin, one of the youngest members of the Magic Circle.

A game of heads or tails raised more than £1,100 for Barnardo's, the UK's largest charity supporting children.

The dinner, held at the Hyatt Regency Birmingham, was sponsored by Legal & General Investments and M&G Investments.


*From left: CISI Chief Executive Simon Culhane, Chartered FCSI, Nicola Green, Adele Diviney (both Barnardo's) and Birmingham & West Midlands Branch President Ben Crabbe, Chartered FCSI*

YORKSHIRE

# Golf day supports air ambulance

**A team** from Redmayne-Bentley triumphed at the first charity golf day run by the CISI's Yorkshire branch.

The foursome, based at the firm's Leeds office, narrowly beat sides from Williams Investment Management and Intermarketing Agency in the tournament at Leeds Golf Centre.

In total, five teams competed and the eventual winners were presented with trophies sponsored by KA Watson Consultancy. The event and the branch annual dinner, which was staged on the same day, were held in aid of the Yorkshire Air Ambulance Service. More than £1,400 was raised to help its two helicopters and crew.

More than 70 guests, including the Lord Mayor and Lady Mayoress of Leeds, attended the dinner and were entertained by guest speaker John Bentley, who played for England at both rugby union and rugby league.

Held at the DoubleTree by Hilton Hotel in Leeds, the dinner was sponsored by ETF Securities.


*Above: Yorkshire branch President, Emma Kilburn, Chartered MCSI, second left, welcomed guests to the dinner. They included, from left, the Lady Mayoress and Lord Mayor of Leeds and CISI Managing Director Ruth Martin*

*Left: The winning golf team from Redmayne-Bentley*

ONLINE

## BEST OF THE BLOGS

**1 tinyurl.com/activist-paradigm**
Posting a blog on the Harvard Law School's website, Stephen Arcano observes that the rise of shareholder activism in the US is due to more than simply disgruntled investors. One of the main reasons for the increase in activism, he suggests, is the increased financial firepower of activist investor funds. This, Arcano believes, "derives to a significant extent from institutional investors that, in seeking 'alpha' returns, have turned to activist investor funds as a legitimate alternative asset class".

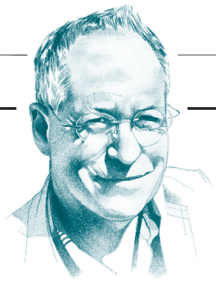
He also points to increased sophistication among activists and the vulnerability of large-cap companies as reasons for more potent activism.

**2 tinyurl.com/shareholder-primacy**
Looking at the Walker Review of Bank Governance in the UK banking industry, Janet Williamson picks up the issue of shareholder primacy, or placing shareholder returns above the long-term health of the bank in question. This, writes WIliamson, should not be solely an issue that concerns the banks. If shareholder primacy contributed to bank failure by distorting the priorities of board decision-making and encouraging short-termism and a lack of proper regard for risk, she argues, then there is reason to suppose shareholder primacy contributes to failure across other sectors of the economy, with a negative, if less dramatic, impact on the wider economy.

**3 tinyurl.com/bondholder-activism**
Noting that shareholder activism has forced an improvement in corporate social responsibility – especially with regard to environmental policies – legal commentator Chia-Yu Chang makes the case for improved bondholder activism. Bondholders, Chang points out, can affect corporate governance primarily through the terms of bond indentures, and in theory this opens the door for them to hold sway in other areas of corporate governance, such as attention to environmental policies.

See page 16 for more on the costs and benefits of shareholder activism.

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



# CLAY '*MUDLARK*' HARRIS

*James Bushell, Head of Settlements, SVS Securities*

**James Bushell** has news for anyone who doubts that being in the right place at the right time can pay off: it does happen. But you must get yourself there in the first place, and have the right credentials. James is Head of Settlements at SVS Securities and one of his first tasks on joining in 2006 was to bring settlements in-house.

The SVS job, and the role he had before it, arose through rather unconventional circumstances. Until then, however, his career path was nothing out of the ordinary. James, who grew up in Essex, left school when he was 16, without finishing A-levels. "I never knew what I wanted to do. I always felt that wasn't right. I always wanted to know what I was going to do."

He worked in various jobs, including at his father's pharmacy, before joining Walker Crips Weddle Beck, starting work on the day after news broke of the Nick Leeson scandal that brought down Barings Bank. "The City was a completely different world for me."

James worked in PEP nominee administration as a clerk when everything was still based on paper certificates. Each annual report and accounts in a portfolio had to be posted out to clients. After 16 months, James moved to Lloyds TSB Stockbrokers where he worked in sold transfers. "It's still probably one of the best places I've ever worked," he says. "We used to work pretty hard most of the time, but we also had a laugh. I always used to look forward to going to work."

He moved three years later to Brewin Dolphin. Still in the bought-and-sold transfers, he "then cottoned on to the idea of how lucrative overtime could be." He volunteered for more work, adding residual settlements, and was made an assistant manager of nominee administration.

> "We used to work pretty hard most of the time, but we also had a laugh"

Whereas at Lloyds TSB Stockbrokers, customers had been allocated by alphabetical order, Brewin Dolphin split responsibility geographically, and James was given Wales and the Midlands. The firm, however, then decided to move away from having all operations in London and began to send some functions to the regions.

Rather than wait to get the push, James said, he went through the list of numbers of the London Stock Exchange's secure private telephone network and picked out prospective employers. He wrote on spec to 50 of them, got interviews with two and a job with one, Fiske, as Settlements and Nominee Supervisor. His letter, sent out of the blue, happened to arrive at the right place at the right time.

James makes a practice of writing a detailed CV, covering the nuts-and-bolts of his experience. Even now, on the cusp of 40, he records the marks he made on each GCSE exam. The detail paid off on this occasion.

"What stood me in good stead was my experience in certain systems, which was exactly what they were looking for," he adds. This brought his first explicit supervisory role, including responsibility for new areas. "I got to learn a lot quickly, and one of my tasks was to write their procedures."

His next move came in even more unusual circumstances. He discovered that he and his boss were applying for the same job at SVS. His boss got the job, handed in his notice and left. Not long afterwards, James got a call about the same position. "I thought you'd filled it," he said. No, he was told, the man who came decided after a single day that it wasn't for him, and left. And that's how James got the job that he has today.

James Bushell

Head of Settlements, SVS Securities

Do you have a back-office story?

*mudlarklives@hotmail.co.uk*

Illustration: Luke Wilson

EVENTS

# Notice of AGM

**Notice is hereby given** that the Annual General Meeting of the Institute will be held at the CISI, 8 Eastcheap, London EC3M 1AE on **Wednesday 25 September 2013, commencing at 10.30am.**

Fellows (FCSI) and Members (MCSI) of the Institute may vote on the resolutions by:

- voting online using the link in the members' section of the Institute's website at cisi.org
- using Form A to appoint the Chairman as your proxy
- using Form B to appoint a proxy, who need not be a member, to attend the meeting and vote on your behalf
- attending the AGM and voting yourself.

**Please note that the AGM notice and voting form, and online voting facility, will be available to voting members from Monday 19 August 2013 onwards.**

The AGM notice and voting form will also be available to voting members by post, on application to Linda Raven. She is available at linda.raven@cisi.org, or on +44 20 7645 0603 from Monday 19 August onwards. You will need to give your membership number. Voting forms, whether completed online or sent by post, must be received by the Company Secretary not later than 11am on Monday 23 September 2013.

CISI RECOGNITION

# New Honorary Fellow

*Puranam Hayagreeva Ravikumar, FCSI(Hon)*

**Honorary Fellowship** of the CISI has been awarded to Puranam Hayagreeva Ravikumar.

President of the CISI National Advisory Council India, Mr Ravikumar has 41 years of experience in the financial sector at a senior management level. He was appointed Managing Director and CEO of the National Commodity and Derivatives Exchange, Mumbai, after a career of more than 30 years with the Bank of India and the ICICI Bank group.

A member of several national level policy/regulatory committees set up by the Government of India, he is also an associate member of the Indian and British Institute of Bankers. Honorary Fellowship, which carries the designatory letters FCSI(Hon), is awarded by the Institute Board to those who have contributed with distinction to financial services and to the CISI. Mr Ravikumar is the first Indian person to receive the distinction.

CISI Chief Executive Simon Culhane, Chartered FCSI, said: "We are delighted to award our highest accolade to Mr Ravikumar as a valued CISI supporter and to welcome him to our elite group of ambassadors."

Mr Ravikumar said: "I am happy to be associated with the Institute in all its endeavours in seeking to promote knowledge and integrity in financial services – needed somewhat in a higher degree in the current context of events."

# Ask the experts...

Tim Drayson, Investment Strategist, Legal & General Investment Management

## THE UNWINDING OF QUANTITATIVE EASING IN THE US

Events over the past few weeks suggest it will be extremely hard for the Federal Reserve (the Fed) to exit quantitative easing (QE) in an orderly fashion. The Fed has signalled that it might gradually slow the rate of asset purchases towards the end of this year, should the economy improve, and this has led to a significant increase in volatility and selling of fixed-income assets. The Fed has tried to be as transparent as possible, but when policy has been geared directly towards reducing yields and raising asset prices via the 'portfolio rebalance channel', any sign of a potential end is liable to unwind these trades. This is particularly the case given the number of leveraged global speculators who have been emboldened by the lure of cheap money in recent years. Emerging markets have been hit particularly hard as some of these so-called 'carry trades' have suddenly reversed.

The tapering process is likely to take several months and that will be conditional on the economy continuing to strengthen during this period. Then there will be a period when the Fed keeps its balance sheet constant, before eventually allowing maturing securities to gradually run down. Only when unemployment has fallen to at least 6.5% and probably somewhat lower, is the Fed likely to consider raising interest rates. An increase will require Fed confidence that strong economic growth is likely to be sustained. On the Fed's current forecasts, this will not be before mid-2015. Judging by recent experience, where each year since the financial crisis growth has failed to gain the traction envisaged by the Fed, the risk is that this timetable will be pushed further into the future.

Even if the Fed is able to communicate effectively the path of monetary policy to markets (there is bound to be a large amount of uncertainty), the normalisation process for monetary policy will inevitably be bad news for investors in US Treasuries. The recent move higher in yields has been sudden, but there is still much further to go over the next few years. In fact, we see the risks as tilted towards the Fed being too late to raise interest rates and inflation rising above comfortable levels towards the end of the decade. Ultimately, interest rates might have to rise significantly to offset the excess monetary accommodation currently being deployed.

There are many parallels in the UK. Not only are gilt yields likely to track US Treasuries higher, but with the UK now moving towards a Fed-style forward rate guidance, there is a danger that the UK is also taking a risk with longer-term inflation by maintaining an easy monetary policy for too long.

Equities should initially perform reasonably well. If bond yields are rising because growth is improving, then this should be good news for corporate earnings. We doubt that increasing interest rates will allow for expansion of price-to-earnings multiples, so investors should prepare for relatively modest returns, but ones that should comfortably exceed those in government bonds. But at some stage the Fed and Bank of England are likely to have to withdraw the excess liquidity more aggressively, perhaps with outright sales of the government bonds they have purchased, or they will risk a more substantial inflation overshoot. While probably a few years away, this will likely prove a very challenging period for financial markets.

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

EDUCATION

# CISI names new Centre of Excellence

*From left: Alex Cannon, CISI Head of Educational Development, Institute Managing Director Ruth Martin, Professor Orla Gough, Professor Barbara Allan, both Westminster Business School, and MSc course leader Dr Harry Thapar*

**Westminster Business School** in London has been selected as a Centre of Excellence in financial markets by the CISI.

Its MSc in Investment and Risk Finance has been endorsed as being equivalent to the prestigious CISI Diploma and graduates of the MSc will be eligible to apply for full membership of the CISI.

The MSc programme provides an intensive grounding in investment and risk finance, combining both academic and practical elements. Professor Barbara Allan, Dean of Westminster Business School, said that the CISI accreditation demonstrated "the quality of our financial education and our commitment to working in partnership with industry".

CISI Managing Director Ruth Martin said the opportunity for graduates to apply for full membership of the CISI upon successful completion of the MSc programme would provide them with an "important competitive edge in the jobs market".

Westminster Business School is one of only 12 CISI Centres of Excellence worldwide.

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. When the Financial Conduct Authority (FCA) issues a prohibition order, what does this mean?
A) The FCA is concerned about the fitness and propriety of a person B) An individual can continue to operate in a controlled function but is no longer approved C) The FCA will prevent the firm carrying out a particular activity D) It is a warning signal that could be followed by withdrawal of approval

Q2. Who initiates the involuntary liquidation of a company?
A) Company's auditors B) Company's creditors
C) Company's directors D) Company's shareholders

Q3. Which ONE of the following investments would NOT be considered attractive for high income ISAs?
A) Corporate bonds B) Index-linked gilts
C) Income shares of split level investment trusts D) Preference shares

Q4. Which ONE of the following would normally be included in a company's Memorandum of Association?
A) Objectives of the company B) Borrowing restrictions
C) Information about meetings D) Rights and duties of directors

# Heading for trouble

**Paying off the mortgage when interest rates are low is manageable for many UK households. But an increase closer to more 'normal' levels could hit a huge number of homeowners hard**

WORRIED ABOUT A rise in interest rates? If so, you're not alone. More than a million households would slide into 'debt peril' were the Bank of England to raise rates by just a few percentage points by 2017, according to a Resolution Foundation study.

If the economy recovers and people earn more before rates rise, then high levels of household debt may be manageable. The problem is that Britons have been less willing than their American counterparts to take advantage of historically low interest rates and pay down loans.

Sure, the UK has not suffered the same levels of mortgage defaults as the US, but we may be storing up trouble. And there is a good chance that many of us do not know just how vulnerable we could be if interest rates returned to more 'normal' levels, rising say from 0.5% now to nearer 4%.

The Resolution Foundation study casts light on what could happen with a modest interest rate shock. A rise in interest rates of two percentage points above current market expectations within four years would put about one in five households in either the 'debt-loaded' or, worse, in 'debt peril' categories. The former comprises those spending more than a quarter of their disposable income on debt repayments, the latter more than half of their disposable income. Some 1.25 million – about one in 20 – households would fall into the most vulnerable category.

Surprising? Not really. With the caveat that I've not analysed the underlying assumptions in the report, a back-of-the-envelope calculation shows that, for much of the past decade, I could have considered myself 'debt-loaded'. And I don't use a credit card, I own an old second-hand motor bought for cash and have no unsecured personal loans. It's all mortgage debt on a modest terrace.

This is hardly an exact science, so you can do the same. Subtract taxes from your monthly income, set the total against your mortgage repayments and, if you've taken out a loan to get on the housing ladder within the past ten years, there's a decent chance you'll be in the group that pays 25% or more of disposable income on debt repayment. And that's before a rise in interest rates to 4%.

Of course, people's vulnerability to such an interest rate rise will depend on a good deal more than such a simplistic ratio. If you bought a house ten years ago, certainly in and around London, you're likely to have built up a substantial equity cushion simply by riding gains in house prices. If you bought elsewhere, just before the financial crisis hit, then you may be more exposed to the risk of 'negative equity', where the size of your mortgage debt exceeds the value of your home. The combination of negative equity and unaffordable mortgage debt is more worrying, as many households found in the depths of the early 1990s property bust.

The risk now of a sharp slide in house prices cannot be ruled out, even as the UK property market recovers from falls in 2008. At a national level, prices in the first quarter of this year were about 11% down from their peak in 2007. But, while house prices are still below pre-crisis levels, Britain did not experience the same collapse as America did. Indeed, in some parts of London the market is brisk. And at about four-and-a-half times earnings, prices remain above the average of the past 30 years.

> *"The BoE has made it clear that any rise in rates is some way off"*

If people are taking advantage of historically low interest rates to borrow more, rather than pay down debt, then Chancellor George Osborne's Help to Buy mortgage scheme – which offers guarantees of up to 15% of a mortgage on a new home – risks inflating a property bubble just as market expectations of interest rate rises grow. The Bank of England, for its part, has made it clear that any rise in rates is some way off. In a debt-loaded world, it will need to manage those expectations carefully. ■

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

# All in the LEARNING

With an increasing number of school leavers seeking an apprenticeship over a university place, financial services firms are fast learning the benefits of offering on-the-job training. **Andrew Davis** reports

**AT THE BEGINNING** of September, six young people will become apprentices at Rathbones, the investment manager, in Liverpool. Quite possibly the first apprentices in the firm's 270-year history, they are being selected with the help of Archbishop Beck, a local sixth-form college where the CISI is sponsoring a teaching post. The apprentices, who will hold at least five GCSEs and three A-levels, can look forward to two years of on-the-job training across a wide range of back-office roles. This will sit alongside a study programme leading to a National Vocational Qualification in Business Administration (level 2) during their first year and the CISI Investment Operations Certificate (level 3) during the second.

Paul Loughlin, Chartered MCSI, Deputy Chief Operating Officer at Rathbones and one of the architects of the firm's scheme, believes it marks a natural progression. "The firm offers management development programmes and a graduate programme that is primarily focused on investment management and is run

out of London. We felt we could complement them by having a more operationally focused programme using the apprenticeship framework," he says.

The apprentices will receive £11,000 in the first year of their training contract, rising to £12,000 in year two, and, although there is no guarantee of a job at the end of the process, Loughlin says the firm believes that it will be able to place those who complete the course.

He and a group of colleagues have been working on the scheme for more than a year and along with a few other firms they are in the vanguard of what looks likely to become a much more widespread trend in financial services during the years ahead. At the investment operations firm IFDS, based in Essex, some 33 young people have recently joined as apprentices in what is thought to be the biggest scheme run by an investment company so far. Meanwhile, Cofunds, the UK's largest independent investment platform with some £50bn of assets under administration, is taking on five apprentices alongside five graduates. Many other companies are also known to be interested.

The apprentices who are joining Rathbones will spend two years working in a series of placements covering areas such as client data handling, dividend processing, transfers and account closures, and administration of Self-Invested Personal Pensions and the Small Self-Administered Scheme. These are core operational roles that in the past, says Loughlin, Rathbones has not always found easy to fill with the right people.

*Young people want a job, so demand for apprenticeships has absolutely rocketed*

The firm has been using recruitment agencies, and has taken on recent graduates and people from insurance or retail banking. "The issue is that not many had direct experience of our industry," Loughlin says. "They were relatively expensive – their value in their own industry wasn't what we would value them at. And where in the past we've tended to recruit university graduates, there's sometimes been a mismatch in terms of expectation and reality because, understandably, they come out of university feeling they can be team managers.

"By setting up the scheme we feel we're tapping into people's potential earlier on and they're able to develop in the working world rather than going through the academic sector. The perfect scenario out of this would be to develop the next leadership group for Rathbones in operations because actually that's the most difficult resource for us to create."

Loughlin also believes that the apprenticeship scheme will help to boost the mentoring and development skills of Rathbones' existing staff. Apprenticeships are already proving increasingly popular across a growing range of industries – the National Apprenticeship Service (NAS) reported in May that a record 11 would-be apprentices are now chasing every vacancy advertised on its site, a

Illustration: Spencer Wilson

level of demand that has risen by almost a third in only 12 months. Several factors are behind this rapid upsurge of interest in a role that most people would previously have associated with the televised exploits of Lord Sugar's sharp-elbowed recruits.

The first, as Ruth Martin, CISI Managing Director, explains, results from the near-trebling of maximum university tuition fees to £9,000 a year, which came into force last year. The result of this was dramatic – the number of students starting degrees in September 2012 fell by 51,000, or 12%, compared with the year before, according to the Universities and Colleges Admissions Service. Ten of the 24 top universities in the elite Russell Group, including Leeds, Imperial College London and Warwick, saw admissions decline.

"One of the reasons why apprenticeships have suddenly become significant is because of changing patterns of choice and decision-making by young people as to whether to go to university or not," says Martin. "There have been apprentices for some time in the 19-plus age group, but, with fewer choosing to go to university because of loans, there are a lot more young people – and not just less able young people – who are actively looking for apprenticeships. They want to get a job and they want to be paid for it, so the demand has absolutely rocketed."

The other big factor, she says, has been the *Richard Review of Apprenticeships*. This study, carried out by the US-born former *Dragons' Den* panellist Doug Richard, set out an ambitious blueprint to strengthen and expand the UK's existing framework of apprenticeships with the aim of putting businesses more in control of the content of apprenticeship programmes and ensuring that all schemes provide sufficiently structured workplace training, coupled with a smaller range of nationally recognised qualifications.

## Plans afoot

The Government is now considering responses to the recommendations that Richard put forward and is expected to publish its plans to revamp the UK's apprenticeship programme this autumn, with the new apprenticeships formally beginning in September 2014.

Many people would probably not associate formal apprenticeships with most 'white collar' occupations, and it's true that they have their roots in the skilled, craft-based industries that have largely given way to the UK's modern service sector. However, NAS advertises vacancies under ten broad headings, ranging from IT and retail to law and horticulture. Financial services apprenticeships appear under the Business, Administration and Law category and include Providing Financial Services (which takes in the operations roles that Rathbones and IFDS are targeting), Providing Financial Advice and Providing Mortgage Advice. The NAS website advertises apprenticeship vacancies across all the areas it covers and the numbers back up the observation of James Hamill, Director of Professional Apprenticeships at BPP University College, a training provider.

"I think investment is behind the curve on this," he says. "In areas like professional services, accounting apprenticeships have been going for the past ten years. About 6,000 people a year take up an accounting apprenticeship, which makes it one of the top 20 apprenticeships in the country."

A recent check on the NAS website threw up 194 vacancies for apprenticeships under the category of Providing Financial Services, 14 under Providing Financial Advice and one vacancy for an apprentice mortgage adviser. However, Hamill says that investment businesses are showing increasing interest and he expects far more to be recruiting by the time the Government's revamped apprenticeship scheme opens in autumn 2014.

"We're talking to loads of investment companies at the moment. We had 19 at two awareness-raising events recently and they're just at the very beginning of thinking about it. We're also talking to a lot of insurance companies."

He points to the rapid take-up among banks as an example of what can be achieved. "Only two years ago there were no banks offering apprenticeships at all, but now they're all running significant programmes. In the space of a year 3,000 people have started a scheme."

Everyone seems to agree that apprenticeships bring multiple benefits. They help produce a more diverse workforce, they enable firms to develop promising staff more effectively in the workplace with significant state support (see box) and they help to meet the corporate social responsibility agenda by encouraging companies to engage with local schools.

From the CISI's perspective as a provider of financial qualifications, Ruth Martin is clear about the benefits that will come from wider take-up of apprenticeships. However, she adds: "We're also interested in it from a more charitable viewpoint in trying to help the industry be more effective and have good standards and recruit good people. It will put the financial services sector in a much stronger place by recruiting good young people from all kinds of backgrounds."

Hamill agrees that apprenticeships offer financial services companies a big opportunity – and says companies are well aware of it. He says: "All of a sudden employers can see that there's a new pool of talent out there that used to go straight to university which they can now tap into." They might well have gone after that new source of talent anyway, but having the support of a revamped apprenticeship scheme will only encourage their efforts. ■

*For further information, visit the National Apprenticeship Service at apprenticeships.org.uk*

### *State support*

Apprenticeships have been in existence since the Middle Ages and originally lasted seven years. They went through multiple reforms but remained popular until the 1960s, when about 240,000 people a year went through the system. By 1990, as traditional industry declined and further and higher education expanded, the number of apprentices had dropped to 53,000. Since then, there have been successive efforts to revamp and update the system, the latest of which is expected to go live in September 2014.

Apprenticeships are divided into three levels, intermediate, higher and advanced, and from August this year they will be restricted to people aged between 16 and 24 who do not have a degree. Training is usually organised and the study-based parts of it are provided by government-approved training companies. For apprentices aged 16 to 18, the government meets the full cost of the training, while for entrants aged 18 to 23, the government will meet half of the cost. The employer pays the apprentice's wages (a minimum of £2.65 an hour) but firms with fewer than 1,000 staff and which have not taken on an apprentice in the past 12 months can also apply for a government grant of £1,500 per head for up to ten apprentices as a contribution towards their wage bill. This grant is currently available until the end of this year.

All apprenticeships must now last for two years and include compulsory study to obtain a nationally recognised workplace qualification.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The collapse of the Rana Plaza complex in Dhaka, Bangladesh, which resulted in the deaths of more than 1,000 workers, propelled Primark into the media spotlight. The clothes retailer sourced many of its garments from a factory located in the building. Many people feel that 'active' shareholders have failed these victims, as they have in past cases, such as the Deepwater Horizon oil spill in the Gulf of Mexico involving BP. Others, however, believe that such activism is misguided. The *S&IR* asked two experts with opposing views to put forward their opinions


Photo: Getty

### For: Anita Skipper is Corporate Governance Adviser at Aviva Investors

*Anita Skipper*

Aren't we all grateful when someone holds hospitals to account for poor medical care? Do we not appreciate people who kick up a fuss when service is not up to scratch, because such actions improve performance? Why is it so controversial when shareholders do the same thing at the companies they invest in?

Companies are not all well managed. If you were to hand £100,000 over to someone to invest on your behalf, you would want to check that it was in safe hands. As an investor, you would want to ensure that the company is efficient and well run – not polluting rivers, bribing officials and risking its reputation and its licence to operate.

Active and activist shareholders like to be defined as long-term concerned stakeholders who engage constructively with companies and, if necessary, act for change. They engage in a whole range of activities, from meetings to monitoring progress, voting against management and submitting resolutions, to calling extraordinary general meetings to remove directors or to change strategy.

Shareholders have to safeguard their investments. Where would we be if no institutional investors actively monitor, or are willing to act? Companies do not always put their shareholders' interests above their own. Executive pay rarely goes down voluntarily and is not often related to the performance achieved. We have seen companies take irresponsible risks and treat people and the environment without respect. As long ago as 1976, Michael Jensen, the eminent US economist, said: "How does it happen that millions of individuals are willing to turn over a significant fraction of their wealth to organisations run by managers who have so little interest in their welfare?"

### More oversight

Regulators and commentators in the press, since the financial crisis, have asked where the shareholders were. Lord Myners, who acted as Financial Services Secretary during the Labour Government headed by Gordon Brown, accused shareholders of being 'absentee landlords' and many shareholders have accepted some blame for not being sufficiently vigilant, especially with the banks. More investor oversight in ensuring that companies act responsibly is crucial if we want to minimise future company failures like those we have just experienced.

Of course, not all activist shareholders get it right all of the time; investors can make mistakes and act in their own interests – as do companies. However, there is a powerful safeguard: at least 50%, and sometimes 75%, of the shareholder base needs to agree with the activist shareholder if change is to happen. No single activist is likely to get the outcome they desire unless they can convince the majority of other investors. Taken together, such activity should end in a positive result both for companies and for their shareholders.

### A price worth paying

Evidence published in July 2012 by the London Business School, the Solvay Brussels School and the University of Cambridge concluded that activism is worth doing. A recent report, *An International Study of Shareholder Activism: Does it Pay?*, looked at almost 2,000 company engagements between 2000 and 2010 in Europe, Asia and North America. The conclusions were that activism is profitable and activist engagements are not short term.

Of course, activism has its costs. There is a price to be paid by both the activists and the companies involved, which is why it is important that there is a clear benefit for everyone in terms of improved prospects for the company, its investors and in some cases its stakeholders. For active shareholders, taking action requires time and resources, and the benefits of improved performance and share price at companies are shared with all investors. Companies targeted will need to put their case together to defend themselves, so this, too, will involve time and money. Yet, if the outcome is better-run companies and safer investments, then it is a price worth paying.

> ***Investors need to be active for the right reasons – to enhance the value of the firm they are engaging with***

Investors need to be active for the right reasons – to enhance the value of the firm they are engaging with. Enshrining such a requirement in regulation would mean that investors would be likely to treat engagement and activism as a compliance issue without a focus on a good outcome for all. We don't want tick-box activism; we want meaningful positive outcomes for companies and their investors. There is a definite rise in activity among shareholders. Let's applaud institutions that support activism for safeguarding and enhancing shareholders' investments.

**Against: Sanjay Sanghoee is a former investment banker at Lazard Frères and Dresdner Kleinwort Wasserstein. He is the author of two corporate thrillers: *Merger* and *Killing Wall Street***


*Sanjay Sanghoee*

In an era when ballooning executive compensation, ill-conceived mergers and questionable board oversight of companies can lead to billions in value destruction and a spillover effect on the global economy, it is becoming increasingly important to find solutions for the problem of poor corporate governance.

Shareholder activism has long been considered the answer, being a free market solution to a free market problem. While there is certainly merit to the theory, the dynamics of activism in the real world can make the cure worse than the disease. The reason for this is that activism is most commonly (or at least most effectively) practised by large institutional shareholders – hedge funds and private equity funds – whose interests do not necessarily coincide with those of ordinary shareholders, the long-term interests of companies or other stakeholders such as rank-and-file workers.

The recent case of Primark's alleged poor oversight of factory workers in Bangladesh – an incident in which more than 1,000 workers died due to the collapse of the poorly maintained Rana Plaza building – highlights the divergence. Since the disaster, clothing companies including H&M have been considering whether to source clothes from Bangladesh at all. This is no help to the millions of textile workers in the country. Rather, such a move would threaten their livelihoods, if not the economic prospects of the country as a whole. In seeking to protect the company's reputation, and no doubt its immediate share price, executive managers at these companies – and by association the major shareholders who hold them to account – may be making the problem worse by avoiding complex issues such as poor working conditions altogether.

From a financial viewpoint, the influence of major shareholders can have toxic results. US super investor Carl Icahn, for instance, is accused of famously killing plans by the video chain Blockbuster to expand into digital distribution, opting instead to continue with the dying bricks-and-mortar model. By doing so, many analysts say, he set the company on the road to bankruptcy. There is also the case of Icahn's acquisition of the iconic airline TWA, which resulted in an immense debt load for the company, an eventual sale of its best assets to service that debt, and, finally, its sad demise.

### Conflicting values

Considering these two examples, it should be clear that there are two competing concerns: short-term shareholder profit versus long-term value creation – both of the companies in question and of their wider stakeholders – and the two cannot always be reconciled. Ordinary shareholders could want a quick profit on their investment, but many others want gradual appreciation in the value of their portfolio for retirement purposes. Others want to invest in companies that exercise a social conscience. One cannot make a judgement about which goal is better from an individual's standpoint, but from a wider economic perspective, a long-term strategy can provide more stability, innovation, wealth creation for everyone and, some would say, create a more responsible society.

In that context, shareholder activism is less desirable than smart rule-making by government. This could be done by creating better checks and balances in corporate governance, such as dividing the CEO and chairman role in the US, tying executive pay more directly to long-term value creation rather than to short-term profitability, requiring boards to engage more actively with the companies they oversee and creating meaningful penalties for breach of fiduciary duty. Leaving it to shareholders to provide this oversight is wishful thinking – since individual shareholders lack the financial sophistication or resources to pursue smart activism – and at worst dangerous; the process is easily hijacked by large shareholders whose goals can destroy good businesses.

### A fine balance

There are no perfect answers, and increased regulation has its perils too: most notably, rules that have unintended consequences, bureaucratic impasses that can limit strategic flexibility for firms, political gamesmanship that can lead to erratic enforcement, and plain old corruption. Perhaps the ideal solution is a mix of both public- and private-sector safeguards, and a balance between short-term profits and long-term value creation. ■

## *Spring has sprung?*

The shareholder spring of 2012 heralded a revolution in the relationship that shareholders of large-cap companies have with their managements and boards. However, research by KPMG suggests that last year's activists may have put down their placards. Citing the protests that led to the resignations of chief executives David Brennan of pharmaceutical giant AstraZeneca, Sly Bailey of media group Trinity Mirror and Andrew Moss of Aviva, the firm suggests that many listed companies are listening to the voices of dissent, even if smaller companies are not.

KPMG observes improved practices and procedures among large corporations, as well as better communications with major share owners, such as pension funds, insurance groups and investment trusts.

# At your service

As Chief Executive of the Financial Ombudsman Service, Natalie Ceeney CBE is well-versed on a range of issues facing financial services. She shares her thoughts with **Tamsin Brown**

**NATALIE CEENEY CBE** had a burning ambition in her younger days to become Prime Minister. Since she sat her A-levels aged 16, securing a place at Cambridge to study mathematics, few would doubt her aptitude for the nation's top job. Yet, for Ceeney, a stint in student politics quickly pinched out that flame. She grew weary of how politics eschews deeds in favour of words.

What drives the adult Ceeney is the feeling that the job she does makes a difference to people's lives. With two million people turning to the Financial Ombudsman Service (FOS) last year for help, the body's Chief Executive is certainly in the right place. Ceeney assumed her position in March 2010, and since then the number of new cases that the FOS has taken on for further investigation has soared from 163,012 to 508,881 per year, with payment protection insurance (PPI) misselling making up nearly three-quarters of the total. The big four banks – Lloyds, Barclays, RBS and HSBC – accounted for 62% of the new cases that the FOS took on last year.

"We see complaints coming to us that should have just got an apology," she says.

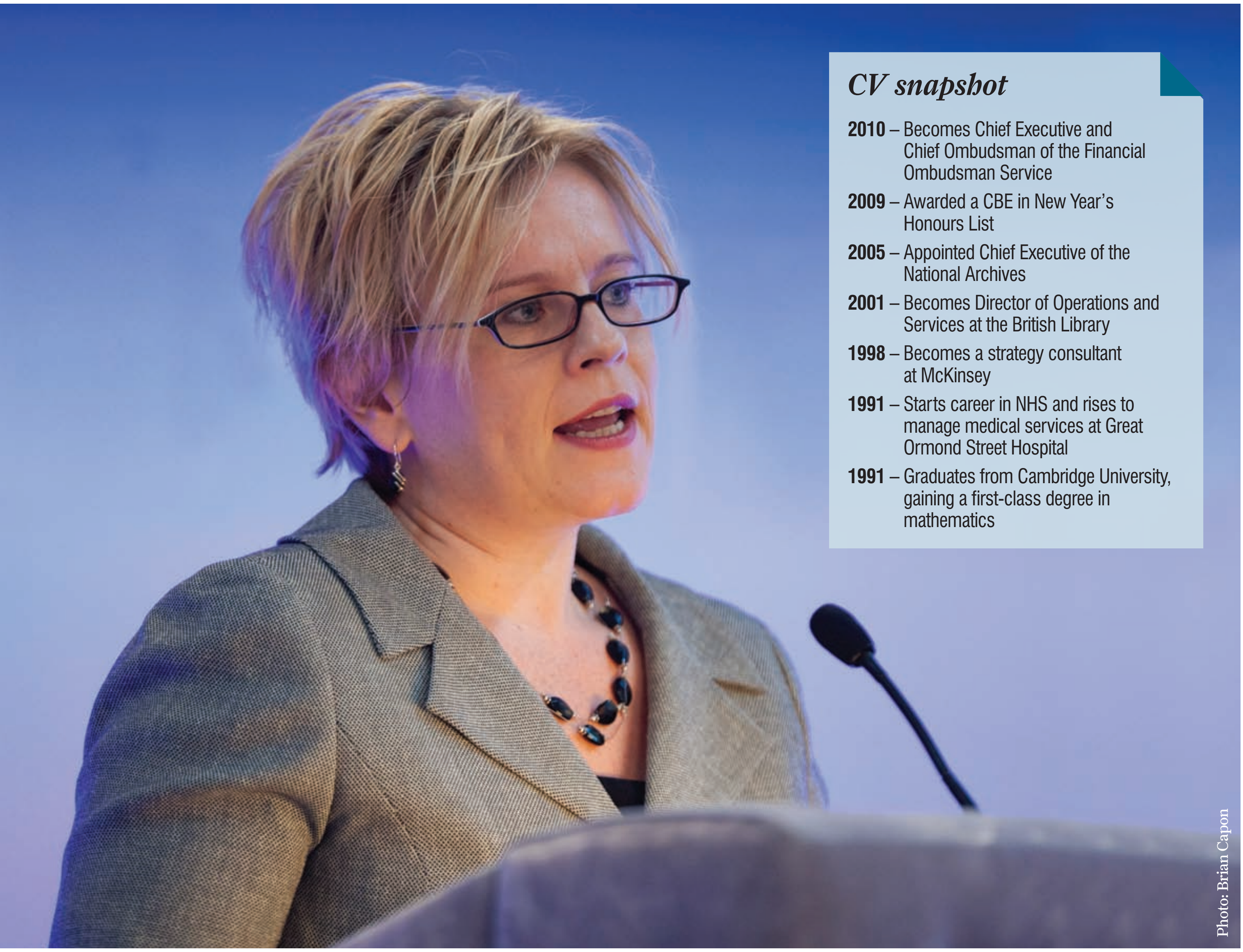


Photo: Brian Capon

### *CV snapshot*

**2010** – Becomes Chief Executive and Chief Ombudsman of the Financial Ombudsman Service

**2009** – Awarded a CBE in New Year's Honours List

**2005** – Appointed Chief Executive of the National Archives

**2001** – Becomes Director of Operations and Services at the British Library

**1998** – Becomes a strategy consultant at McKinsey

**1991** – Starts career in NHS and rises to manage medical services at Great Ormond Street Hospital

**1991** – Graduates from Cambridge University, gaining a first-class degree in mathematics

"We see complaints coming to us for very small amounts of money, where banks have repeatedly failed to sort a problem. We are finding issues with financial hardship and banks that are not particularly sympathetic."

Sitting on the receiving end of this tidal wave of complaints inevitably means that Ceeney paints a bleak picture of the banks. Indeed, such is the proximity of the FOS to the coalface that John Griffith-Jones, Chairman of the Financial Conduct Authority (FCA), calls Ceeney his 'best friend' for acting as an early warning system on financial conduct.

### Little improvement

Overseeing a service that deals in matters as diverse as mortgages and pensions to pawnbroking and pet insurance, Ceeney's bête noire is clearly PPI.

While the FOS handles myriad issues relating to various financial products, Ceeney believes the similarly bad approach that some institutes take when dealing with customer complaints is a cause for concern.

"We are still not seeing the improvement in complaints-handling behaviour that you would expect," she says. Indeed, banking complaints were higher across every product area last year and are also the driving force behind a leap in related cases. In stark comparison, independent financial advisers account for less than 1% of the complaints the FOS receives.

Ceeney says: "A lot of the investment issues we have considered over the last couple of years have been some quite big problems with the banks around the sales of complex investment products to unsophisticated buyers." Most of the banks have stopped doing this, Ceeney admits, but the FOS is still dealing with the aftermath.

The latest misselling scandal to hit banks is interest rate swaps sold to small businesses. This falls under Ceeney's remit, but to a much smaller degree; the FOS is responsible only for micro enterprises with fewer than ten employees and less than €2m turnover. Interest rate swaps are suitable for some companies but have been sold too widely and too aggressively. Of the 300 cases that the FOS has come across so far, the worst affect very small businesses, such as B&Bs or fish and chip shops, where the customer may well have been financially unsophisticated.

Ceeney believes the biggest challenge for the financial services industry is the information asymmetry between consumers and those selling financial products. She says one has to accept that, currently, consumers in the UK just don't have a high enough level of financial literacy.

Yet, she points out, even the more financially educated customer could have found themselves being duped, especially with respect to PPI. Sales scripts have shown evidence of what is called assumptive selling – when a product is sold despite the salesperson not securing clear consent from the customer.

"Some consumers knew exactly what they were buying, but an awful lot didn't," she says. "In most of the banks, sales staff were deliberately incentivised to target virtually anyone touching a loan."

Ceeney argues that financial providers have an obligation to examine closely whether a product is suitable for a consumer and not just see it as a sales opportunity. On the flip side,

> ***"You can only ask consumers to be responsible if they understand enough"***

she claims that government should do more to improve financial education so that such issues are less likely to arise.

"I think consumer responsibility is really important but you can only ask consumers to be responsible if they understand enough," she adds. "We do have to get financial literacy up so that people can make informed choices about what to do with their lives." Sadly, Ceeney continues, there is poor awareness of basic financial issues among young people. "When you consider the sort of debt that young people have to get into to finance university places, their lack of understanding of basic concepts is quite scary."

The head of the FOS herself had to swot up on the financial industry when she took the reins – it was her first step into the financial services market. But, as a natural high flier – Ceeney started university when she was just 17 – her rapid ascent in a number of other arenas stood her in good stead to deal with this job. Ceeney began her career in the NHS where she rose to manage medical services at Great Ormond Street, the London children's hospital. After working for management consultant firm McKinsey, she moved to the British Library before becoming CEO of the National Archives.

She says: "Most industries have an awful lot in common. Customers behave as customers regardless of the industry, so most people's expectations of good customer service in a supermarket are pretty similar to what they expect from a bank or a building society."

Not surprisingly, the deluge of complaints pouring into the FOS's inbox means that Ceeney puts in long hours. Her day starts between 7am and 8am and she gets home just in time for bed. But she is undeniably passionate about her job.

"I need to go home at the end of the day and feel I am doing something socially useful that makes a difference, and in the FOS I think we absolutely do." ■

## *PPI: Notes on a scandal*

The true scale of the payment protection insurance (PPI) misselling scandal, the biggest in British history, took well over a decade to emerge.

Rumbles of concern started as early as the mid-1990s when the banking ombudsman at the time pointed out that loan protection products were being bundled in with other products. The magazine *Which?* rang an early alarm bell on the issue in 1998 and Citizens Advice issued a super-complaint on the widespread misselling of the product to the Office of Fair Trading in 2005. The Financial Services Authority published a report on PPI in the same year that found poor selling practices, but it took several more years for the saga to really gather pace.

The consequences of the scandal escalated after the banking industry lost its High Court battle in 2011 and the volumes of complaints soared. The number of PPI cases that the FOS was taking on rose from 1,500 a week in 2010 to 2,000 a day last year and 3,000 on a bad day. The FOS has had to double in size in order to cope with the complaints. Last year it hired about 1,000 new staff to focus on PPI and this year it expects to do the same.

## *The FOS at a glance*

Set up in 2001 as part of the Financial Services and Markets Act 2000, the job of the FOS is to sort out individual financial complaints that consumers and businesses aren't able to resolve themselves, covering banking, insurance, mortgages, credit cards and store cards and financial advice, to name a few.

In its own words, the FOS aims to be completely independent and impartial: "This means that when we decide a complaint, we look carefully at both sides of the story and weigh up all the facts."

Consumers are not required to accept any decision the FOS makes, but, if they do, that decision becomes binding on them and on the business. The FOS can resolve simpler cases within a few months, but more complex complaints, such as those involving payment protection insurance, may take up to a year.

The CISI's Annual Conference this year played host to a variety of speakers with backgrounds in financial services, the media and politics. They came together to discuss wealth management and the threats facing the industry. **Rob Haynes** reports

# *Wealth* AND SAFETY

**TECHNOLOGY, COSTS, REGULATION,** professionalism... this year's Annual Conference, devoted to the theme of wealth management, explored a range of weighty issues facing financial services.

However, the overriding focus of the conference, called 'Other People's Money: Investing in the Future', was the need for greater integrity to win back the trust that consumers require, not least for the benefit of the economy at large.

'How long do you think it will take for the public to believe the banks have really changed?' That was the question put to the 200-strong audience at Grange Tower Bridge Hotel in the City of London by CISI Chief Executive Simon Culhane, Chartered FCSI, at the start of the conference. Feedback was invited via responsive handsets and the Twitter hashtag CISI2013. Around 87% of respondents answered that it would take six years or more. That chimed with views expressed at the conference by Mark Garnier MP FCSI.

Garnier, a member of the Treasury Select Committee, suggested that it will take a generation before effective banking standards become the norm within the industry. The CISI's online IntegrityMatters ethics test, Garnier said, was singled out by the Parliamentary Commission on Banking Standards – on which he sits – as an example of good practice.

In his keynote speech, John Griffith-Jones, Chairman of the Financial Conduct Authority (FCA), talked about trust in financial services, calling it "the hottest of hot topics", and bemoaned the fact that "confidence had dissipated" from the financial system. "Outside of the Square Mile," he said, "it takes a Herculean effort to find affection for the City."

Griffith-Jones pointed out that asset managers have weathered the storm better than most, although there should not be an air of complacency and no presumption that wealth managers could be free from contamination spreading from other parts of the financial engine. The sector will benefit, he said, from a regulator that makes markets work well, by protecting consumers, encouraging competition and promoting integrity among industry professionals. The FCA plans to be a forward-looking regulator, seeking to neutralise problems before they arise, said Griffith-Jones, adding that the cost of regulation by looking in the rear-view mirror has proved too great.

## A true and fair future?

The theme of the day's first panel debate, chaired by Christopher Jones-Warner, Chartered FCSI, was 'Wealth management tomorrow'. Jones-Warner, Chairman of the CISI wealth management professional forum, introduced the discussion by referring to the 16.5% growth of non-managed assets since the inception of the Retail Distribution Review (RDR), meaning that a great many clients are 'doing it for themselves'. This prompted the question, 'Which business model will take us forward?' Responding to an interactive poll about what type of services such clients might need, 39% of the audience thought that they would require low-cost trading services.

> *It will take a generation before effective banking standards become the norm*

Richard Charnock, Chartered FCSI, CEO of Standard Life Wealth, continued the discussion by stating that wealth management is no longer a protected industry – indeed, the impact of regulation has meant that the sector has started to fragment. Businesses with a broker heritage, for instance, have grabbed market share through technological innovation.

The impact of the RDR, Charnock continued, means that customers are paying greater scrutiny to an industry that is serving up more homogenised products, and this has made it harder for firms to tailor their portfolios. This, he argued, had to be performed in a world where firms must meet demand for smooth returns. Gina Miller, founder of SCM Private and the True and Fair Campaign, which lobbies for greater transparency for customers, picked up the issue of clients, empowered by the internet, who have chosen to go it alone in the aftermath of the RDR. She pointed out that at a certain level of success, typically at the £200k–£300k mark, they become nervous investors and tend to turn to the wealth management industry for financial advice. At that point, their choices will be dominated by service costs and a desire to see products that are transparently priced.

On the supply side, Miller underlined the need for a prudent set of guidelines for wealth managers, saying that the industry shouldn't allow a generation of investors to sleepwalk into buying bad products. Miller stressed the importance of educating clients, stating that at her firm clients must attend a course about investing and are required to take a test before they deposit funds with the firm. This, Miller claimed, helps the company retain those clients who are serious about investing money, meaning that instead of withdrawing their cash when markets fall, often they top up.

Nick Hungerford, CEO of wealth management firm nutmeg, concurred about training, saying that "clients must do education". His company operates a points-based scheme, awarding customers 'nutmegs' for loyalty, referrals and pounds invested, which they can use to reduce management fees for their accounts. Hungerford observed how easy it is for clients to change their advisers and close their positions if they harbour unrealistic expectations. Looking at the supply side of the industry, Hungerford called for a new definition of Return on Investment, which would entail wealth management firms improving their "resilience, their optionality and their intelligence".

Scott Dobbie CBE FCSI(Hon), Senior Adviser at Deutsche Bank and former CISI Chairman, posed a question from the audience on the issue of cost. Given that this is now such an important factor for wealth management firms, customers are being offered index-linked products such as exchange-traded funds, which, while cheap, do not reflect underlying economic performance. Investors, he claimed, end up buying into the efficacy of the market, and are unaware of the risks such instruments pose.

### Europe and regulation

Regulation curried little favour. Lord Flight, a member of the House of Lords European Union Economic and Financial Affairs Sub-Committee and Commissioner at the Guernsey Financial Services Commission, raised a red flag over the Alternative Investment Fund Managers Directive (AIFMD) – Europe's regulation of hedge funds and private equity funds. This, he reckoned, spells bad news for London, as the added 'hassle' of reporting – and other demands – means that fewer fund managers would choose to domicile their management in the City, in favour of financial centres such as Singapore and Dubai.

Flight believes that AIFMD, combined with uncompetitive tax rules, will threaten London's primacy as an international financial centre. As for the Financial Services Bill, that "won't constitute much of an attraction" either. The only glimmer of optimism in Lord Flight's speech was with reference to the Financial Services Trade and Investment Board (FSTIB), which, in acting as a 'one-stop shop' for fund managers to market their industry, may help London compete with the competition in Europe, notably from Luxembourg. Asked from the floor whether he supports London leaving the EU, Flight's response was as unsurprising as it was uncomplicated: "Yes", he said.

> ***Wealth managers must have control over the drive for improved integrity***

### Generation game

Iona Bain, Senior Reporter at *Financial Adviser*, chaired a discussion about the consumers of the future, touching on both technology and ethics. Bain pointed out that among generation Y (the cohort of people currently aged under 30), the proportion using the web to inform their saving and investing decisions – rightly or wrongly – will approach 50% by 2033. This will mean the number of advisers will drop dramatically in that time, which is a trend that will be encouraged by progressively fewer members of the baby boom generation needing financial advice.

Simon Read, Personal Finance Editor at *The Independent*, backed up Bain's point and, like Gina Miller in a previous discussion, underscored the importance of the internet in empowering customers to make their own choices. In 20 years' time, Read claimed, the industry will see collectives of investors sharing information about charges, accountability and transparency, a practice heralded today by the likes of consumer champion Martin Lewis of MoneySavingExpert.com fame. As the newspaper industry has come under threat from the potency and immediacy of the internet, so the financial advice sector may be threatened by the online world.

Aligned with the need to respond to technological advances, wealth managers will need to up their collective game on delivering quality services. Daniel Godfrey, CEO of the Investment Management Association, said that the industry should identify actions and initiatives that wealth managers can take to reassure customers. Godfrey wants a culture where professionals act on what is in the best interests of clients, rather than waiting for regulators to act first, in such areas as trust, transparency and products that are easy to understand.

Wealth managers must have control over the drive for improved integrity, and if the industry as a whole is able to 'do what is right for customers', then unscrupulous players will feel excluded from it.

### How is the industry responding?

Nobody has cracked how to provide wealth management for the middle classes, according to Dr Andrew Hilton, Director of the Centre for the Study of Financial Innovation. Hilton argued that, in order to enjoy successful returns, an investor – especially a self-investor – must spend most of their time investing.

Due to increasing costs, the wealth management industry faces the challenge of providing services that middle-income investors need. They should not wake up in the middle of the night worried about their finances. Rather, the industry has to provide a worry-free service that clients can afford. Silvia Pavoni, Economics Editor at *The Banker*, agreed with Hilton, pointing out that the increased costs that wealth managers face may lead to a form of consolidation.

Dr Robert Barnes, Chartered FCSI, Managing Director of Anopolis and a CISI director, sounded a note of optimism for the industry, stating that in future the demand for long-term instruments that support infrastructure investment in developing countries is less likely to be met by banks. However, customers will still want long-term asset instruments, meaning that wealth managers may be in a position to bridge the gap.

Nick Hungerford re-joined the platform by stating that wealth managers must listen to their customers, and that making the industry accessible to all should be a shared goal. He also expressed the need for financial products that exhibit a social good and the importance of communicating with clients in different ways, such as through social networks. ■

*Diary date – the next CISI Annual Conference will take place on 2 July 2014*

CISI tv *Watch highlights of the conference on CISI TV at cisi.org/cisitv*

*From top: John Griffiths-Jones, Chairman, FCA; Silvia Pavoni, Economics Editor, The Banker; Iona Bain, Senior Reporter, Financial Adviser; Nick Hungerford, CEO, nutmeg*

Photos: Philip Reeson

# *Time* AND AGAIN

Many financial analysts make the mistake of thinking they live in a science fiction novel with numerous worlds, as **Professor Michael Mainelli, Chartered FCSI,** explains

*Nicolaus Bernoulli*

**THREE HUNDRED YEARS** ago, members of the legendary Bernoulli family formulated the St Petersburg Paradox.

A casino proposes a game for a single player in which a fair coin is tossed repeatedly. The pot starts at £1 and is doubled every time a head appears. When a tail appears, the game ends and the player wins the pot – in other words, £1 if a tail appears on the first toss, £2 if a head appears on the first toss and a tail on the second, £4 if a head appears on the first two tosses and a tail on the third, and so on.

The Bernoullis asked, what would be a fair price to pay the casino for entering the game?

Assuming the casino has unlimited resources, the game can continue as long as the coin toss results in heads. Since a tail must come up sometimes, you are guaranteed to receive some payout (at least £1). Further, you can plot all the various permutations of heads and tails and see that, on average, you win, and win big (the expected gain is infinite). Yet people quickly grasp that this game offers large gains only at very low probabilities and typically offer small sums – say £25 – to play. What seems paradoxical is the discrepancy between what people are willing to pay to enter the game and the infinite expected value.

> *The St Petersburg Paradox is no paradox, rather the wrong use of ensemble averages*

In a paper for the Royal Society 298 years later, Professor Ole Peters of the London Mathematical Laboratory and the Santa Fe Institute offered a solution from a viewpoint that affects the way we analyse financial situations today. He pointed out an obvious flaw in analysing the St Petersburg Paradox, using the common practice of gauging investments by the sum of all possible outcomes weighted by their probabilities. This is the expected return approach of financial analysts. Peters notes that expected return is equivalent to imagining multiple copies of ourselves in parallel universes, one for each possible future, and then averaging the results. Physicists call the average of all these multiple copies an ensemble average.

### Time for time averages

To analyse the St Petersburg Paradox we should use another average – the time average – in which the future unfolds in just one universe over a long time. In order to do

Photo: Getty

this we have to assume playing equivalent games repeatedly – that is, we judge the gamble as part of a long-term investment strategy, compounding returns over time. To make a simple numerical comparison – invest £100 subject to a 50% rise or fall with equal probability. Out of many parallel investments, half go up to £150, half down to £50, and on average nothing happens. The ensemble average is £100. But in a single investment over time the representative 50% rise to £150 followed by a representative 50% drop results in £75 after two rounds, a time-average loss of about 13% per round.

Imagine that you have paid £1m to join the game, hoping for at least 20 consecutive heads. If tails shows up on the first toss, can you afford to continue? You live one life and can realise only one of the possible futures. If you lose, you can't ask your imaginary winning selves to make your losses whole and, if you win, you have no way to recompense your imaginary losing selves.

A few people do win a lot in the casino, but most play a very short game. As Peters notes: "The expectation value of my wealth in some gamble may be exponentially increasing while I'm guaranteed to go bankrupt." The St Petersburg Paradox is no paradox, rather an inappropriate use of ensemble averages for analysis instead of time averages.

When considering multiplicative growth, the time perspective converges with the ensemble perspective when fluctuations are small. But with moderate or large fluctuations, the ensemble perspective will be different from the time perspective. Looking across markets such as equities or fixed income or commodities, there will be trends up or down. For the individual investor, the time perspective is relevant, and the ensemble view is not. A common strategy that addresses this problem is diversification and it may work for some, but for others it only delays eventual failure.

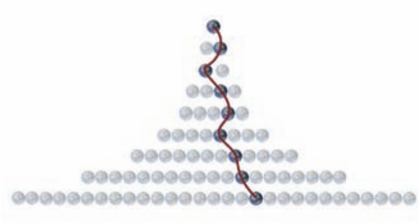
## Above average analysis

Time-average analysis is markedly different from ensemble-average analysis. Economic models – for instance, most that exhibit economic growth as well as 'random walks' or geometric Brownian motion – should be using time averages. Towers Watson produced a paper looking at the practical implications of time averages. It concluded that Peters' new viewpoint affected the assessment of stochastic models, leverage limits (Sharpe ratios), risk-based asset allocation and catastrophe bonds, and increased the importance of cash flow, speculating whether target returns might be affected too: "Just as the tortoise beat the hare in Aesop's fable, we have a hunch that a low-volatility, robust portfolio built on time averages will compound through time at a faster rate than a 'racy' portfolio built on ensemble averages."

Further, risk management and regulation using ensemble averages are called into question. Peters' colleague, Alex Adamou, explains: "Risk has two sources. The first is that the future is uncertain. The second is that time is irreversible. Choices about uncertain futures are risky because we can't go back and try again. We must live with the consequences. Without uncertainty or irreversibility, decisions would be trivial, and economics duller, if more accurate." Peters relates fluctuation to risk: "Ensemble averages do this funny thing: they get rid of fluctuations before the fluctuations really have any effect. That makes it very difficult to deal with risk because risk is often just another word for fluctuations." Peters and his colleagues have gone on to apply their approach to understanding leverage-driven bubbles and crashes, setting optimum leverage and explaining income inequality. Aiming high, they are well on their way to developing a decision theory as a branch of mathematical physics.

Peters asserts that the time average, in which the future unfolds in just one universe, is what we, as individuals, actually experience and that it is therefore a more appropriate measure on which to base our decisions. For financial analysts, we need to be clear whether we're analysing our client's time or the time of the multiverse. There is a big difference. ■

### Possible worlds



Over time, the single path through possible worlds is more reliable than expected returns

*With thanks to Ole Peters and Alex Adamou of the London Mathematical Laboratory.*

***Further reading***
*cisi.org/olepeters1*
*cisi.org/olepeters2*
*cisi.org/towerswatson*

*A 30-minute discussion of these issues between Michael Mainelli and Ole Peters is available now on CISI TV. The CISI is planning a special 300th birthday event for the Paradox, to assess its importance for modern-day finance, on 9 September. For details, please visit* **cisi.org/events**

cisi tv


**Professor Michael Mainelli, Chartered FCSI,** is Executive Chairman of Z/Yen Group. He co-founded Z/Yen, the City of London's leading commercial think-tank and venture firm, in 1994 to promote societal advance through better finance and technology. Michael's third book, co-authored with Ian Harris, *The Price of Fish: A New Approach to Wicked Economics and Better Decisions*, won the Finance, Investment & Economics Gold Prize at the 2012 Independent Publisher Book Awards.

Should a new recruit at an asset management firm recommend an investment in the adult film industry? Or would such a venture carry too much reputational risk?

# *Central casting*

**JOHN TYNDALE IS** a young and recent recruit to asset management firm Fleece Street. He grew up in a devout family and considered becoming a priest before diverting to the world of finance. He joined Fleece Street based on the firm's representations that he could help make a difference to its philosophy. Traditionally, Fleece Street has pursued a wide range of investments, but has aspirations, John was told, to focus more on socially responsible funds that shun enterprises seen to be socially damaging, such as alcohol and tobacco. Currently, the firm's funds are invested in such assets, along with gambling enterprises and suppliers to arms manufacturers. John researches and recommends suitable client investments for the firm's retail funds. This involves preparing presentations, compiling forecasts and spreadsheets, and researching potential new clients, products and services. While the firm does not market any of its funds specifically as socially responsible investments, it does promote its reputation for maintaining a high standard of integrity in its investment practice, which John felt was another attraction.

John's unit has a good track record but, more recently, the firm has been selective about new investments and the unit is under pressure to meet annual performance targets. Accordingly, John and his colleagues are intensively researching client requests, under the supervision of senior managers, in an effort to meet unit targets, while allocating the firm's resources effectively.

### Solid numbers

John's manager, Nigel, informs him with great enthusiasm about a potential bond investment, which he sees as very promising in yield and performance. Nigel, who recently met representatives of the issuers of the bond at a media conference, asks John to do more research on the company, Castingcouch Inc., which John duly undertakes.

On investigation, John discovers to his dismay that one of the company's main (and most profitable) income streams stems from the distribution of adult films, largely produced by small independent companies, mainly for the hotel industry. Castingcouch has been distributing this content to large and small hotel chains for the entertainment of guests and has achieved a strong financial profile. Despite the attractive yield on the company's bonds, John has deep personal reservations about offering this investment to clients, believing that the core business of the company, while not illegal, is not the sort that the firm (or he as a participant) would wish to cultivate from either a reputational or an ethical viewpoint.

John meets Nigel to discuss his findings and, although he accepts the good financial profile and track record of Castingcouch, he expresses concerns about its business. Nigel listens and is surprised at what he calls John's 'naïveté'. Nigel sees nothing wrong with the Castingcouch investment and is thrilled at the prospect of being able to offer clients a bond with an attractive yield, which will help the unit meet its annual targets.

John tries to engage Nigel in further dialogue about the investment, asking him whether he believes that senior management would really be pleased to have this company in the portfolio, especially if word about it gets out to the media. John sees this business as harmful, exploitative and socially irresponsible. He suggests that retail clients of the fund would object to this investment if they became aware of the type of business in which Castingcouch engages. Nigel responds by asking whether John would have the firm exclude a tobacco company or alcoholic drinks producer, where the firm is already invested, and if not, why would he have deeper reservations about this investment? What is the difference? Some of Fleece Street's most remunerative investments are in tobacco and alcohol, not to mention suppliers to arms manufacturers, as well as extractive, petroleum and chemical industries.

> *The core business of the company is not one John feels that he can endorse*

John knows this all too well, as a good part of his due diligence has been investigating the impact of potential lawsuits and other complaints on new and existing company investments, ranging from class actions on the treatment of employees to environmental damage claims.

Nigel reminds John that there is nothing explicit in Fleece Street's investment policy to exclude Castingcouch from the portfolio, saying that he should view it simply as another entertainment company, distributing films no worse than those regularly pumped out by the Hollywood majors, whose bonds and stock the firm also owns. John believes that this is a bridge too far, noting that companies such as Time Warner have come under fire from time to time from shareholders objecting to that company's involvement in businesses they regard as questionable.

### Further scrutiny

The conversation ends with Nigel instructing John to write up the investment for review by the firm's investment committee, and telling him to focus on the merits of the bond's yield and relative safety. He adds that, as the committee meets very soon, there is no time to re-visit the proposal, even if he was minded to do so, which is not the case. John accedes, but is nagged by doubt and wonders now whether he did the right thing in joining Fleece Street. Nigel has intimated that John's analysis is expected to be 'objective', and that he should keep his personal principles to himself.

So John prepares an analysis of the Castingcouch bond, featuring the relatively strong financials of the company, including its good cash flow, driven by a core business which has proven quite stable, and has even been growing, over the years. He covers the dynamics of the core business in a somewhat superficial fashion, though leaving no doubt as to its actual nature. In his final recommendation, he is torn between his own convictions and the pressures of Nigel and other colleagues.

The following Tuesday, the investment committee is meeting to review new proposals, and John's analysis has been submitted. John


Photo: iStock

and Nigel meet ahead of time to discuss strategy for the meeting and Nigel remains a fervent supporter of Castingcouch, saying that he will extol its merits, emphasising the attractive yield, the good financial profile and track record of the company, and the terms of the bond. He can compare it with other entertainment companies in which the firm has invested. Nigel makes it clear that he expects John to support his view.

John, as preparer of the analysis, is likely to be asked explicitly for his recommendation, but has already expressed his discomfort with the investment to Nigel. He views the investment as inappropriate, on ethical grounds, for Fleece Street's client base. It is certainly not something that he would consider for his personal portfolio. He also thinks it could taint Fleece Street's reputation. ■

### *How should John proceed?*

a) John has no choice but to endorse the position of his manager and support the inclusion of Castingcouch in the firm's fund, based on its attractive yield and acceptable risk. By doing so, he is serving the best interests of the firm and its clients in providing a competitive fund return.

b) John should recommend to the committee that the investment be rejected outright on moral grounds, based on his own views and the potential impact on the firm. If this creates difficulties with his manager or the firm, then John may feel compelled to part company with his employer.

c) John should express his concerns to the committee about the appropriateness of this investment given the nature of Castingcouch's activities, with potential repercussions for the firm. His personal views should be left out of it.

d) John should privately approach the chairman of the investment committee ahead of time and ask to be excused from this exercise, as he recognises a conflict of interest between his personal views and his obligations to the firm.

*Visit* cisi.org/castingcouch *and let us know your favoured option. The results of this survey and the opinion of the CISI will be published in the October edition of the* S&IR.

## *Acts of charity* *THE VERDICT*

**The May edition of the *S&IR* featured a dilemma involving the relationship between the trustees of a charity and its financial adviser. The charity needed to increase its income, which possibly would jeopardise its relationship with its adviser. This story elicited a number of responses from members with professional expertise in this area and the CISI is grateful to them for taking the time to respond.**

Readers may recall that, in the scenario, Harriet was a trustee of a family-founded charity which was facing some concerns as to how it could meet its charitable commitments. The charity was looking at the role of its financial adviser. The adviser, in turn, was considering the advice they could give to meet the charity's aims on the one hand and protect their own role on the other.

As one respondent commented, a proposal by the financial adviser to suggest changing the investment mix to sell the trustees' higher-risk investments, which might also generate higher commissions, was likely to be of greater benefit to the adviser firm than the charity. The trustees should be alive to this and should seek the firm's justification for any such recommendations.

Fundamentally, though, the purpose of the dilemma was to raise questions about the role of trustees, who may be inexperienced compared with their financial advisers. This is the same dynamic as exists between the average private customer and their adviser, although in the case of the charity trustee the role also comes with significant legal responsibilities. As a reader pointed out, trustees should be mindful of their obligations under s4 of the Trustee Act 2000.

In essence, the charity is faced with a number of difficult courses of action, which might include:

- reducing expenditure by postponing or reducing 'commitments'
- increasing income by significantly changing the investment mandate
- drawing on capital resources to fund a temporary income shortfall.

None of these is an easy option, but, whatever course is chosen, the decision should be made by the trustees on the basis of a proper understanding of the position, rather than their being swayed by their financial adviser. It was also suggested that trustees might take into account the expectations of donors, particularly in terms of risk, when determining how to proceed.

# *Need to read*

*The latest publications and study aids supporting CISI qualifications*

TWO NEW WORKBOOKS – DIPLOMA PROGRAMME

## Regulation & Compliance

The Regulation & Compliance exam aims to test candidates' knowledge of the legal, regulatory and ethical framework of the UK financial services industry and their ability to apply it in a practical manner.

## Global Operations Management

The Global Operations Management exam assesses students' understanding of operations and settlement procedures.

*Both workbooks are due out in August and cover the December 2013 exams.*

***Price: £100 per workbook***

NEW WORKBOOK AND ELEARNING EDITION

## Derivatives

The aim of Derivatives, part of the Certificate Programme, is to ensure that individuals develop an understanding of the technical aspects of financial and commodity derivatives. This will let their employers seek approved persons status for them to advise and deal in the derivatives markets. A new edition of the *Derivatives* workbook and corresponding elearning product (relevant to exams from 11 October 2013) covers:

- underlying markets
- trading, hedging and investment strategies
- special regulatory requirements.

***Price: £100 for combined workbook and elearning product***

NEW WORKBOOK AND ELEARNING EDITION

## Fundamentals of Financial Services

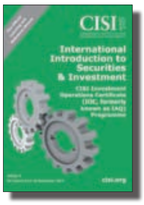
Fundamentals of Financial Services is an important first step in developing the essential basic knowledge required for working in financial services.

Candidates will learn about the industry and commonly used financial products, such as shares, bonds and insurance. It will provide an understanding of financial terminology and help in calculating interest rates and dividend yields.

The Ofqual-regulated qualification, which is recognised as a level 2 award on the Qualifications & Credit Framework, is ideally suited to new or junior employees within the industry. It is also appropriate for school leavers who are considering a career in finance. The *Fundamentals of Financial Services* workbook and corresponding elearning product (covering exams to 31 July 2015) are out now.

***Price: £80 for combined workbook and elearning product***

NEW WORKBOOK AND ELEARNING EDITION



## International Introduction to Securities & Investment

International Introduction to Securities & Investment provides an introduction to the world of finance and the global financial services industry for candidates working outside the UK. A new edition of the CISI's *International Introduction to Securities & Investment* workbook and corresponding elearning product (covering exams from 10 September 2013) is out now.

Topics covered include:

- the economic environment
- financial assets and markets
- equities
- bonds
- investment funds
- financial services regulation.

***Price: £100 for combined workbook and elearning product***

NEW WORKBOOK AND ELEARNING EDITION

## Financial Derivatives

Financial Derivatives, part of the Certificate Programme, is a professional-level exam covering the characteristics of derivatives, including forwards, futures, swaps and others traded in the UK, their relationship to the underlying cash securities, and their use in achieving investment objectives. A new edition of the *Financial Derivatives* workbook and corresponding elearning product (relevant to exams from 11 October 2013) covers:

- futures and options trading
- principles of over-the-counter derivatives
- trading, hedging and investment strategies
- special regulatory requirements.

***Price: £100 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 helps you to 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, including the latest regulatory changes. New modules are added to the suite on a regular basis and existing ones are frequently reviewed by practitioners. All modules are in line with the new UK regulatory environment. At the end of each module, there is a test which will help you to determine how much knowledge you have gained. The product currently consists of more than 50 modules, including:

- corporate actions
- financial crime
- investment principles and risk.

Passing a Professional Refresher module is logged 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. Visit cisi.org/refresher for further information.***

## External specialists

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

There are currently around 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 any of its derivatives subjects, Advanced Global Securities Operations, Operational Risk, Administration of Settlement & Investments, Risk in Financial Services 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

## Conferences

**10 OCTOBER Training & Competence Conference 2013**
America Square Conference Centre, 1 America Square, 17 Crosswall, EC3
**CISI members can attend this conference for just £200 (non-members £400). For further details, visit *cisi.org/conferences*, or call *+44 20 7645 0777***

**CONFERENCE SPONSORSHIP**
To consider taking up one of the sponsorship or exhibition opportunities at a conference, please contact Fran Murrells on *+44 20 7645 0725* or email *fran.murrells@cisi.org*

## CISI Annual Integrity Debate

**25 SEPTEMBER CISI Annual Integrity Debate**
Plaisterers' Hall, One London Wall, London, EC2

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

## CPD training courses

Venue: London, unless otherwise stated

**8 AUGUST Conduct Risk: What Might We Expect in the FCA Environment? Practical Issues† £500**

**20 AUGUST Building a Client-Focused Professional Service for the New World† £500**

**4 SEPTEMBER Suitability and Appropriateness: Avoid Misselling† £500**

**18 SEPTEMBER Anti-Money Laundering & Terrorist Financing Introductory Workshop† £500**

**24 SEPTEMBER Essentials of Supervision† £500**

**3 OCTOBER Updated Thinking for Packaged Products† £500**

**15 OCTOBER Behavioural Economics – the FCA and You and Your Clients† £500**

## *Member and Fellow discounts*

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

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

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

## London CPD events

**6 SEPTEMBER Behavioural Skills for Wealth Management**
CISI, 8 Eastcheap, EC3

**9 SEPTEMBER St Petersburg Paradox Celebration**
Gresham College, Barnard's Inn Hall, Holborn, EC1

**16 SEPTEMBER Docklands Lecture**
Four Seasons Hotel, Canary Wharf, E14

**17 SEPTEMBER Butterflies, Chaos and Fractals**
Museum of London, 150 London Wall, EC2

**7 OCTOBER FCSI Masterclass – Bank Strategies and the Regulatory Challenge**
London Capital Club, 15 Abchurch Lane, EC4

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

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

## CISI London Annual Dinner

Michael Portillo

**28 NOVEMBER**
Plaisterers' Hall, One London Wall, London, EC2
The CISI's premier social event of the year will feature as guest speaker Michael Portillo, journalist, broadcaster, and former Conservative Party politician and Cabinet Minister.

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

## Branch events

**30 AUGUST Football Tournament**
Liverpool & North Wales: Power League, 2 Whittle Street, Liverpool

**10 SEPTEMBER Multi-region Football Tournament**
Liverpool & North Wales/Yorkshire/Manchester & District: Power League Manchester Central, 20 Union Street, Ardwick, Manchester

**10 SEPTEMBER The Challenges of Risk Management and Regulation**
Scotland: Separate events being held in Glasgow and Edinburgh

**11 SEPTEMBER Presentation Skills**
Manchester & District: Manchester Art Gallery, Mosley Street,

**12 SEPTEMBER Annual Dinner & Awards Ceremony**
Scotland: The George Hotel, 19–21 George Street, Edinburgh

**16 SEPTEMBER Around the World in 180 Minutes** (half-day event)**
Bristol & Bath: Mercure Brigstow Hotel, 5–7 Welsh Back, Bristol

**18 SEPTEMBER FATCA Update****
Guernsey: The Old Government House Hotel, St Ann's Place, St Peter Port, Guernsey

**19 SEPTEMBER Quiz Night**
Manchester & District: The Ape & Apple, 28 Dalton Street, Manchester

**19 SEPTEMBER Bank of England Update†**
Liverpool & North Wales: Deutsche Bank, Royal Liver Building, Pier Head, Liverpool

**19 SEPTEMBER Integrity at Work (held jointly with University of Edinburgh Business School)****
Scotland: University of Edinburgh Business School, 29 Baccleuch Place, Edinburgh

**20 SEPTEMBER Bank of England Update (event with CIMA and ACCA)†**
Yorkshire: DoubleTree by Hilton Hotel, 2 Wharf Approach, Granary Wharf

**25 SEPTEMBER Behaviouralising Finance: Maximising Anxiety-Adjusted Returns****
The Royal Yacht, Weighbridge, St Helier, Jersey

**26 SEPTEMBER Social Media for Business: The Things You Really Need to Know:**
Brewin Dolphin, 9 Colmore Row, Birmingham

**26 SEPTEMBER Guernsey Investment Briefing: Megatrends****
Guernsey: The Old Government House Hotel, St Ann's Place, St Peter Port, Guernsey

**18 OCTOBER Annual Dinner**
Isle of Man: Mount Murray Hotel, Santon, Isle of Man

**24 OCTOBER Annual Dinner**
West Country: University of Exeter, Streatham Drive, Exeter

**30 OCTOBER Football Tournament**
Yorkshire: Goals Soccer Centre, Redcote Lane, Leeds

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

**RDR ANNUAL CPD**

† This event meets annual CPD requirements for members affected by the Retail Distribution Review. Please note all RDR CPD must be relevant to your role.

Professional forums

## Members' events

Brian McNulty MCSI

The CISI financial technology forum recently addressed the topical subject of high-frequency trading (HFT).

HFT has attracted the attention of politicians and regulators worldwide, with artificial breaks being introduced to limit market volatility. However, it is credited by its supporters with providing more liquidity and shortened spreads for investors and a range of benefits for both the buy and sell sides.

Financial Technology Forum Chairman Brian McNulty MCSI said: "HFT will continue to be a key focal point for how advances in technology will shape our markets. What is at times referred to as the technology arms race is concerned with who can design the most sophisticated HFT algorithms, aimed to exploit price movements. It focuses on several areas, including reducing round-trip time (for a trade), which factors in developments in parallel processing and field-programmable gate arrays (FPGAs) to reduce latency and remove 'jitter', which is the ability to maintain the fair trade executions." He said that coupled with this there are further efficiencies to be found in the code itself and in infrastructure real-estate battles, which mean positioning technology components closer to related external components to further reduce latency.

Brian continued: "All this results in some serious financial investment to ensure companies are looking down the track to create these ground-breaking moves before the competition." Brian said that the European marketplace was in parts lagging behind other geographical locations such as the US.

"As a result I think there will be a massive drive to educate the younger generation within Europe, probably through more targeted training programmes or partnering with educational bodies, in order to develop future technology thought leaders, rather than continually needing to bring them in from other locations.

"It is a very interesting area for CISI technology members to explore further and get ahead of the curve to a degree in terms of where opportunities will arise."

**The next financial technology forum (details below) will explore how cloud computing is providing benefits to asset managers.**

*Event details:*
19 September: *Cloud Computing*
Goldman Sachs, River Court, 120 Fleet Street, London EC4. 12.30pm–1.30pm, followed by a light lunch

*To reserve a place at this event, please book via cisi.org or call customer support on +44 20 7645 0777*

*To sign up to the mailing list of the forum, please email pfs@cisi.org*

**The financial technology forum is one of six forums run by the CISI. For information about future meetings, visit *cisi.org/pf***

## 60-second interview

### Keith Loudon, Chartered FCSI

Veteran stockbroker Keith Loudon, Chartered FCSI, one of the Institute's original members, opened a trading day at the London Stock Exchange to celebrate his 80th birthday. Keith, Senior Partner at Redmayne-Bentley in Leeds, has worked for the firm – and its forerunner – for 51 years.

Keith Loudon, Chartered FCSI, centre, with friends including CISI Managing Director Ruth Martin, at a market opening ceremony hosted by the London Stock Exchange

**Q *Why did you pursue stockbroking as a career?***
I joined Redmayne & Co as an office clerk in 1962. As an ambitious 29-year-old with a keen interest in the stock market, I jumped at the chance of learning the trade from my father, who was the firm's senior partner.

**Q *What has been the biggest change you have seen in stockbroking?***
The abolition of Appendix 40 in 1986. Before then, stockbrokers outside London were not allowed to deal directly in the City market. They paid around half their commission to London agents.

**Q *What advice would you give to anyone beginning their career as an investment adviser?***
First, qualify as quickly as you can, and secondly, get to know people.

**Q *What lies ahead for the sector?***
I am hopeful that we will see integrity and respect return. The CISI Code of Conduct could form the basis for a 'Hippocratic Oath' and I would like to see investment managers and stockbrokers follow it, doing what is right, rather than what they can get away with.

CHARITY LUNCH

# Alan Diamond marks birthday in style

Dr Alan Diamond OBE MCSI

**When Dr Alan Diamond** OBE MCSI celebrates his birthday, it means many happy returns for charity. Retired stockbroker Alan, one of the Institute's longest-serving members, founded a charitable trust with his wife in 1976 and from a modest initial investment the fund has grown substantially, enabling it to support a variety of worthy causes.

Each year, to mark his birthday, Alan invites friends to lunch at a notable venue with a top speaker, encouraging donations to a chosen charity.

This year's event was hosted by Sotheby's in London and Grant Ford, a director of the auctioneers, entertained diners with a behind-the-scenes look at the *Antiques Roadshow* TV programme, on which he appears. In excess of £14,000 was raised at the lunch, held in aid of Dementia UK. Other charities to benefit from Alan's birthday lunch have been Fight for Sight, which is dedicated to the prevention of blindness and the treatment of eye disease globally, and the Royal Navy and Royal Marines Charity, which helps serving and former naval service personnel and their families.

Next year's event will support the British School of Osteopathy, of which the Princess Royal is the patron.

Alan was appointed an OBE in 2012 in recognition of his contributions to public service and philanthropy.

# Membership admissions and upgrades

**MCSI**
**AFH**
James Boyce
Mark Wright
**Barclays**
Luis Aguilera
Chris Grant
Shailen Majithia
Laythamm John Malorey
**Brewin Dolphin**
Charles Caton
**Brown Shipley**
Sarah Crouch
**Capital International**
Douglas Hornby
**Captiva**
Beata Lukawska
**Cardiff University**
Ivona Ivaylova Videnova
**Ceridian Mauritius**
Khooshal Mussai
Manish Ramguttee
**Credit Suisse**
Leonardo Carvalho Brummas
Nicholas Malachy Lawlor
**EFG Private Bank**
Jonathan Lea
**Enhance Group**
Elif Carr
**Fidelity**
Vivienne Slegg
**Frank Investments**
Paul Sedgwick
**Hauxwell Partners**
Simon Hauxwell
**Hedley & Co**
Iliyas Patel
**HSBC**
Yvonne Marr
Martina Ni Fhatharta
**Investment Management Association**
Irving Henry
**Investment Quorum**
Petronella West
**J. P. Morgan Private Bank**
Charlotte Bobroff
**Kleinwort Benson**
Kim Naylor
**KPMG**
Christopher Peaker
**Lloyds TSB**
Richard Garvey
Rees Hales
**Nunavut Development Corporation**
Ramamani Balaji
**Omgeo**
Jean-Remi Lopez
**P.K. Udgata Associates**
Pradeep Udgata
**Prosperity IFAs**
Joerg Schlueter
**R T Financial Services**
Jose Lopez
**Raymond James**
Charles Campbell
**Royal Bank of Scotland**
Benjamin Mastel
**Seven**
Andrew Naylor
**SG Hambros Bank**
Christiane Elsenbach
**Standard Bank**
Warren Zietsman
**Towry**
Peter Johnson
**UBS**
Aisling McArdle
**Vartan & Son**
Dario Milizia
**Vestra Wealth**
Andrew Harris
**Walker Crips**
Grahame Wick
**Whitefoord**
Diana Vitkova
**Others**
Marcellina Ehimhen
Michelle Falla
Eve Merckaert

**ACSI**
**Accenture**
Prasanna Kulkarni
**Agincourt**
Richard Cunningham
**Akintola Williams Deloitte**
Emmanuel Ogunjumo
**Arena**
Andreas Wueger
**B & CE Insurance**
Nicholas Gannon
**Bank Insinger de Beaufort**
Frank Oldeweme
**Bank of London and the Middle East**
Hemant Mistry
**Bank of New York**
John Love
**Barclays**
John Allan
David Tattan
**BGL**
Bolaji Oyemade
**BNP Paribas**
Neil Barker
Lynn Feehan
Donna Fitzsimmons
Michelle Locke
Michael Mills
Paul Worsley
**Brewin Dolphin**
Annabel Breakey
Jack Clothier
Hollie Dixon
James Nicholson
**Brighter Financial Services**
Ian Wilcock
**Bringforth Group**
Tochukwu Lawrence
**Brown Advisory**
David Kay-Shuttleworth
**Brown Shipley**
Claire Dandridge
**Canaccord**
Oliver Harwood
**Capel Court**
Andrew Phillips
**Cavendish**
Nasir Rashid
**Cazenove**
Cleo Biron
**Central Markets**
Ben Phillips
**Chapel Hill Denham**
Chidinma Chukwueke
**Charity Hope Trust**
Annatoria Chimhanda
**Continental Broadcasting Services**
Akintokunbo Akintona
**Coutts**
Hannah Buxton
Claire O'Hara
Daniel Smith
**Cumulo**
Richard Kilburn
**Deutsche Bank**
Jubril Enakele
Russell Gula
**deVere Group**
Robert Harris
**Edgbaston**
Martin Azzinnaro
**Edison**
Christopher Barrie
**EFG Private Bank**
Niraj Shah
**Express Discount**
Adewale Ajisafe
**Falcon**
Ejaaz Jivraj
**Family Investments**
Dawn Waller
**Firstline Securities**
Matthew Gayle
**Guardian**
Jamie Drummond
**Guernsey Financial Services Commission**
Jo-Anne May
**HSBC**
Adrian Temperton
**Ingenious**
Rebecca Davidson
**Investec**
James Arumainayagam
**JM Finn**
William Clegg
George Pullen
**JPMorgan Chase**
Regina Boet Bolanos
Satish Logesparan
**J. P. Morgan Private Bank**
Matthew Schaab
**Killik**
Paras Amlani
**Laidlaw**
Peter Silverman
**Lamb Brooks**
Graeme Routledge
**Lloyds TSB**
Andrew Powell
**Lombard Odier Darier Hentsch**
Erik Mermet
**London Metal Exchange**
Robert Sheldon
**Makinson Cowell**
Josh Fitzmaurice
**Meht and Mehta**
Atul Mehta
**Mirabaud UK**
Anthony Burrell
Ihab Yassine
**Mizrahi Tefahot Bank**
Oded Neifeld
**MountRock**
Adam Nicholas
**Mutual Alliance**
Egede Akhukpai
**NatWest**
Anthony Airey
**Paragon**
Oloruntola Umoh
**Petroliam Nasional Berhad**
Najmiah Abdul Awal
**Planned Fund Management**
Terence Madeleine
**Quotidian Investments**
Peter Richards
**Rathbones**
Jennine Sweeney
**RBC Europe**
Thomas Mary
**Royal Bank of Canada**
Angelina Yap
**RPMI**
Tanya Hailes
**Sanlam**
Kay Hylton
Katrina Tabor
**Saxo**
Juliette Seel
**Seven**
Aimee Watson
**SG Hambros Bank**
Yousef Al Amad
**Shoreline**
Simon Scotting
**Silver & Gold Autos**
Samuel Nuga
**St. James's Place**
Edmund Wilson
**Star Capital Finance**
James Hartland
**Towry**
Deborah Teall
**UBA Pensions Custodian**
Simon Mba
**UBS**
Henry MacLeod
Mounir Naffi
Xinjie Wang
Athena Watson
Ahmed Yamani
**Union Investment Management**
Gagan Daphu
Nicholas Irons
Gareth Jones
Andreas Mitas
Thomas Ochocki
Christopher Yardley
**VSA Capital**
Jon Richmond
**Walker Crips**
Chai Hung Miranda Hui
Neil Morss
**World First**
Jeremy Harden
**Others**
Abdulhamid Al Faqih
Fatai Buraimo
Martin Carey
Lilian Samali
Adebola Toyin-Adebanjo
Lukasz Michal Ziec

**Chartered FCSI(Hon)**
**Banque du Liban**
Riad Salame
**Other**
Puranam Ravikumar

**Chartered FCSI**
**Albert E Sharp**
Bhupinder Parmar
**Broadstone**
James Groom
**Charles Stanley**
Edward Playne
Anjali Roberts
**Clubb Capital**
Carlos Pittol
**Coutts**
Ronan Walsh
**Credit Suisse**
Steven Kendal
**Hawkes**
Adam Hawkes
**Investec**
Peter Bell
Katie Greed
**Jersey Financial Services Commission**
Gail Hesten
**JM Finn**
Simon Temple-Pedersen
**Nial**
Irina Scrivens
**Odey**
James Barton
**Walker Crips**
Simon Lambert
**Other**
David Miller

**Chartered MCSI**
**ABN AMRO**
Andrew Thomson-Kennedy
**Bambridge Accountants**
Alistair Bambridge
**BGC Partners**
Andrew Chiles
**Brewin Dolphin**
Neil Anderson
Brian Paul James
**Capita**
Rebecca Rainey
**Channel Capital Advisors**
Nathan Townsend
**Coutts**
Andrew Baty
**Deer Creek**
Malcolm Glaister
**Financial Conduct Authority**
Colin Atkinson
**Friends Provident**
John Pattie
**Goldman Sachs**
Ryan Lavallee
**HSBC**
Arietta Bortot
Mark Sinclair
**IFA-Asia**
Ricky Matthews
**J & E Davy**
Christopher English
**Leo Alexander**
Nicola Duffey
**Nedbank**
Carlo Lourenco
Simon Prescott
**Raymond James**
James Chandler
**Thesis**
Paul Morley
**Others**
Christopher Moore
Jean-Louis Andre

*This list includes admissions and upgrades from 24 April to 23 May 2013*

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

The boxing ring is a home from home for Daniel Page, Chartered MCSI, as **Lora Benson** reports

# Seconds out

Daniel Page, Chartered MCSI

**DANIEL PAGE'S PASSION** for boxing is reflected in the name he chose for the boutique management consultancy he set up last year, Cornerman Ltd.

Aside from being Managing Director of the London-based firm, which works with the alternative asset management community, Daniel is a professional boxing second, or cornerman. It is a role that involves advising and aiding boxers in the minute break between rounds, patching up – in boxing parlance 'working' – any cuts to reduce swelling and stop bleeding. He has been involved with boxing since he was ten years old and, in his early 20s, inspired by a friend, began training fighters.

Then, eight years ago, a chance encounter with a school friend, who was boxing at a show, put Daniel on the long road to becoming a professional second.

He says: "From there we began to train together and when the decision was made for him to go professional as a fighter, the head trainer and myself turned pro at the same time."

To become a professional second, Daniel served a lengthy apprenticeship and had to obtain a licence from the sport's regulator, the British Boxing Board of Control (BBBofC).

He says: "You can't escape the risks involved in our sport and the BBBofC does a fantastic job of ensuring the barriers to entry require a high minimum standard of competency.

"The application process includes intense interviews, a course and exams. I served my apprenticeship 'wrapping hands', carrying buckets and 'working cuts' anywhere I could, as often as possible. One evening, I worked 13 separate corners with 11 of those fighters receiving cuts that needed attending to! It's been a steep learning curve."

Nowadays, Daniel puts his expertise as a second into practice at fights throughout the UK. He works with half a dozen licensed professionals spanning four weight classes, helping with their training at Legends, a boxing gym in Romford.

He says: "It's a new professional outfit that is lucky enough to have one of the best young head trainers in the country, Jamie Williams."

The role can take Daniel abroad, particularly to run altitude and warm-weather training with former Olympian and British Champion Sam Storey in Spain.

"Boxing is infectious and the professional game is populated with some of life's great characters – being in the gym or the ring is my haven, away from the pressures of work and life in the City," says Daniel.

"There is something to be said for getting off a plane from a marketing trip to Geneva and heading straight to a boxing venue like York Hall in Bethnal Green to 'work cuts' for an aspiring professional.

"Seeing a fighter you are close to, and have played a small part in their training and development, win at the highest level is an amazing feeling. The focus that is required to train a fighter, much like training yourself, is intense. I find that diverting my focus to boxing does wonders for my own wellbeing and this directly impacts the clarity and focus that I can then turn to my clients' issues."

The contribution of a cornerman during a fight is crucial, says Daniel.

"It is imperative that the minute break between rounds is utilised as efficiently as possible. A calm, organised corner gives your fighter the best chance."

In those 60 seconds, the corner team, which comprises the trainer and seconds, carries out a range of tasks, from removing and rinsing out the boxer's gum shield to giving him a drink of water and checking and treating his face for any cuts or swelling.

He says: "A cut will be treated with an adrenaline swab and pressure. Swelling will be dealt with by the careful but firm application of an 'iron', a cold metal device that is smeared with Vaseline – if used incorrectly it can cause serious damage."

Daniel says that his corner team believes only two or three short instructions should be given to the boxer between rounds, given the time constraints. Advice may be as simple as 'keep your right hand up'.

"A carefully placed instruction or piece of encouragement can turn a fight, in the same way that efficient cut work can be the difference between your fighter being able to box on or not."

Among the fighters Daniel works with, he has high hopes for light middleweight Kristian Agyei-Dua, who reached the semi-finals of *Prizefighter*, a tournament shown on Sky Sports, and has featured in several televised bouts at area title level.

> *"Being in the gym is my haven, away from the pressures of work and life in the City"*

Daniel also highlights super middleweight Mike Evans Jr, who has won all of his five fights, and light middleweight Taylor Jordan: "Interestingly, Taylor is a male model who is signed with the famous Storm agency." ■

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

*Daniel tends to the right glove of boxer Mike Evans Jr*

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