

REVIEW



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

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Passing THE BATON

It has run its race, but how did the FSA fare as regulator of the UK's financial services? *page 5*



Currencies at war
The US dollar is squaring up to the Japanese yen, p11

The bond question
Gilts may be overvalued, but there are still buyers, p12



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REVIEW



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ONLY HALF OF PROFESSIONALS WORKING IN THE BANKING SECTOR IN THE UK RECEIVED A BONUS IN 2012

Richard Ryan, Manager of Banking and Financial Services Recruitment in the North at Robert Walters, discusses some of the key findings from the firm's recent pay and compensation survey.

The market is clearly challenging for banking and financial services firms at the moment and compensation across the sector is currently under significant scrutiny.



Overall, pay rise and bonus levels were relatively low in 2012. Only 48% of professionals working in the banking and financial services sector in the UK received a pay rise, with the majority of these uplifts between one and six per cent of salary (only 22% received an increase of seven per cent of their salaries or more). Similar trends were evident in the bonuses that were awarded. Only 53% received a bonus, with only a very small proportion (22%) receiving a bonus of more than ten per cent of their salaries.

Professionals in the North were relatively well rewarded in comparison to the rest of the country. According to our survey, 51% of banking and financial services professionals working in the region received a pay rise in 2012, which was a greater proportion than the UK as a whole and both Midlands (47%) and London and the South East (46%). While these statistics are clearly indicative of a tough market, they also reflect how firms are increasingly focusing their resources outside of London.

This was in evidence last year, when we saw a growing interest among employers in relocating to the region. In the last 12 months, we've received an unprecedented number of enquiries from organisations implementing feasibility studies investigating moving at least some of their operations to the North of the country. While the cost benefits are obvious, there is also the realisation that there doesn't have to be any sacrifice in terms of quality. There is an increasing acceptance that both the level and depth of talent in the big cities outside of London is very strong. Although this trend has primarily been driven by the impact of the downturn, businesses are now consciously looking to tap into these resources because they realise that they can relocate without compromising the overall productivity or quality of work.

The impact of these relocations on the local jobs market has been significant – people obviously leave their existing roles to move into these newly-created vacancies and they ultimately have a 'domino effect' on recruitment in the region. They often lead to jobs being created in a range of back office-focused areas at the junior to mid-level, from finance, HR and administration to, in some cases, legal and marketing.

While the overall market remains tough, there are some encouraging signs – particularly in the North. As a result, we are reasonably optimistic about the banking and financial services jobs market in the region for 2013.

To request your copy of the Robert Walters Banking and Financial Services Compensation Survey or to request a copy of Robert Walters' 2013 Salary Survey contact: richard.ryan@robertwalters.com.

“Professionals in the North were relatively well rewarded in comparison to the rest of the country.”

CISI OPINION

As the UK faces a new regulatory structure, how should the FSA be remembered?

The final VERDICT

IN POLITE SOCIETY, it is frowned upon to speak ill of those recently departed and we shall extend the same courtesy to the FSA as it is put to rest, some 15 years after the incoming Tony Blair Government called it into being.

Announced suddenly in May 1997, the creation of the FSA ambitiously attempted something rarely tried before: the amalgamation of a multitude of regulators covering all three branches of financial services – banking, insurance and securities. In an attempt to eliminate overlaps and duplication between the ‘alphabet soup’ of existing regulators, and determined to do away with self-regulation, the new structure veered to the other extreme. It brought together nine existing self-regulatory organisations under one roof and, in a disastrous ‘hospital pass’, also handed the new body responsibility for overseeing the banking system – a power summarily removed from the Bank of England.

With the benefit of hindsight, it should have seemed obvious that removing responsibility for regulating the banking system from the central bank would end in tears. As long ago as the 1870s, Walter Bagehot pointed out that only the central bank has the financial firepower to act as the lender of last resort and underwrite confidence during times of crisis.

A forcible reminder of this truth arrived in September 2007, when customers of Northern Rock queued in the streets to withdraw their money in the first full-blown run on a British bank in well over a century. The difficulties of the regulatory structure were graphically illustrated by the sight of a financial regulator presiding over a bank run that it was responsible for preventing, but did not have the ability to halt.

However, the pitfalls of the regulatory structure were deepened by the regulator. Possibly encouraged by the then Chancellor, Gordon Brown, maintaining the infamous soft-touch regime led to the abolition of the requirement for wholesale bankers to take any exams and encouraged the banks to push the boundaries. They apparently believed that the regulator would tell them when to stop. The regulator took the view that the banks’ management knew best, leaving them to gallop over the cliff, rather than rein them in. Where was the central bank when it was needed?

This schizophrenic approach resulted in the train crash that was RBS, followed by the HBOS/Lloyds debacle, although the latter might be laid at the door of the government at the time.

The FSA let the banks gallop over the cliff, rather than rein them in

Nevertheless, proper supervision of HBOS should have prevented it becoming a giant Northern Rock-type problem in the first place.

So if the FSA has not fared well in meeting its remit for ensuring financial stability, how might it be judged against its responsibilities for bringing about market confidence, consumer protection and reducing financial crime?

A balanced view might be that market confidence has been maintained, arguably due to the market participants themselves, rather than any specific actions of the regulator. Consumer protection has been decidedly patchy, with payment protection insurance being the

most spectacular failure, even if it was an inherent fault, which exploded in the face of the FSA. The same may be happening with interest-rate derivatives sold to small businesses.

However, the Retail Distribution Review (RDR) is a big step forward for consumer protection and higher standards of professionalism – albeit with the unintended consequence of depriving some of the market from any financial advice. The RDR did, though, put integrity and ethics centre stage – a belated conversion given that the previous ethos among FSA senior management was that “we don’t do ethics”.

Success against financial crime might depend upon your point of view. There have been some notable successes against insider dealing, money laundering has, possibly belatedly, come under intense scrutiny in London this past year and whether LIBOR rigging is seen as financial crime or ethical failure may have to wait for the results of anticipated criminal prosecutions.

Arguably, the creation of a super-regulator for financial services was a political gesture, which backfired on its proponents, so now the job of ensuring financial stability will be separated from the job of protecting customers. The new system, comprising the Prudential Regulation Authority and the Financial Conduct Authority, one day may be found wanting in its turn, but we must be optimistic that it does not prove to be another sorry example of relying on hope over experience.

So how would we grade the FSA? B-. ■





CPD

Experts lined up for CISI events

Sir David Tweedie, one of the world's most influential accountants, and Veronica Poole, Global IFRS Leader at Deloitte, will open up to Professor Michael Mainelli, Chartered FCSI, from think-tank Z/Yen, about the real future and fears of financial reporting.

In a wide-ranging interview, two of the world's leading experts will challenge convention and ask "What's useful?" and look to the future. This joint event with the Institute of Chartered Accountants of Scotland, of which Sir David is President, will be held in the City on 19 March and will allow members to pose their questions to these leaders in accounting.

Among other forthcoming events:

• Kevin Milne, Chartered FCSI, securities industry veteran and now CEO of Rate Validation Services, will kick off a two-part CPD event on 21 May with his colleague Andrew Simpson. They will cover the key regulatory initiatives that have been at the heart of market structures and review the changes that came out of the global financial crisis and have affected the structure of markets now. They will then proceed

to give an explanation on 24 June of what sits behind the scandalous LIBOR headlines.

Their second session will outline how the LIBOR process worked, how it could have been manipulated and what should be done to repair public confidence. They will review the implications of the Wheatley Report and other global and European responses.

• Directors' and officers' liability insurance has always been a murky area, but is now a key issue for executives and directors in financial services firms facing a growing legislative onslaught. Two of the leading lawyers in the field, Francis Kean of Willis, Finance and Regulatory Litigation practice of Allen & Overy, will tease out the key questions members should be asking about how well they are covered and indemnified in their duties at a special CPD event on 15 May 2013, which will be introduced by former CISI Chairman Scott Dobbie CBE FCSI(Hon).



Sir David Tweedie



Veronica Poole



Michael Mainelli,
Chartered FCSI



Kevin Milne,
Chartered FCSI



Francis Kean



Scott Dobbie CBE
FCSI(Hon)

For full details of these and other events, see cisi.org/events

REGULATORY UPDATE

All change



Why do you need to read *Change*, the CISI's regulatory update?

The short answer is that there is always at least one interesting regulatory change that you have missed. The volume of material published daily by UK regulators (the FSA,

the Bank of England, the Treasury and others), those from the EU (the Commission, the Presidency, the European Securities and Markets Authority and others) from the US (the SEC, the Federal Reserve and others), and globally (the G20, Basel and others), makes it difficult to keep up. Given that most firms focus on what directly impacts their own activities, the chances of missing recent past and coming changes is substantial.

That is why the 66 pages of *Change* exist as a service to members to support their own knowledge base.

View the edition at cisi.org/change

PROFESSIONAL REFRESHER

The new regulatory framework



From 1 April, a new regulatory structure will take effect in the UK – and you can find out more about it thanks to Professional

Refresher, the CISI's online learning system.

A new Professional Refresher module, called The New UK Regulatory Environment, explains the new structure. It details how the new authorities, the Financial Conduct Authority and the Prudential Regulation Authority, will work and co-operate with each other and the approach that they will bring to financial regulation.

Professional Refresher allows self-administered refresher testing on a variety of topics, including the latest regulatory changes. There are currently more than 40 modules available with new and topical modules being added regularly.

It has been enhanced and updated and offers:

- More interactive questions
- A module progress bar
- A search option within modules
- Automatic recording of CISI CPD.

The full suite of Professional Refresher modules is free to CISI members or £150

for non-members. Modules are also available individually.

For more information, turn to page 26 or visit cisi.org/refresher

LIVE AND INTERACTIVE WEBCAST

Chat with the CEO



Martin Wheatley

As Britain's two new regulators make ready to take the reins, Martin Wheatley, Chief Executive designate of the new Financial Conduct Authority, will

address CISI members in a webcast on 12 March from 6.30pm - 7.30pm. It will be a chance to hear about the new authority's work plans and ask questions just a fortnight before it formally takes over.

To book, visit cisi.org/webcast or call +44 20 7645 0777. Once you have made your booking you will receive an email 24 hours before the event containing the log-in details needed to watch the event online



ANNUAL DINNERS

Afloat in Bristol

The CISI's Bristol, Bath & South Wales branch was on the crest of a wave as it held its regional dinner – aboard SS Great Britain, the famous 19th century ship.

Nearly 70 guests attended the dinner, where branch President, Isabel Kwok, Chartered MCSI, provided guests with an update on local activities. CISI Chief Executive Simon Culhane, Chartered FCSI, highlighted Institute-wide developments that will benefit members.

The evening included a tour and insight into the Bristol-based SS Great Britain, designed by Isambard Kingdom Brunel, and a speech by Geoff Miller, former cricketer and now Chairman of Selectors for English Cricket.

A charity auction on behalf of Young Bristol, a youth-driven charity that works to offer a choice of opportunities and activities for all young people, raised over £1,000. The event was sponsored by Artemis Investment Management, Henderson Global Investors, Invesco Perpetual and J.P. Morgan Asset Management.



Isabel Kwok, Chartered MCSI, President of the CISI Bristol, Bath & South Wales branch, with event speaker Geoff Miller

SURVEY

Blow for coalition on economy

Only one in five financial players think the Government has handled the economy well in the first half of its term in office, a CISI survey shows. Of 280 respondents, 6% felt the Government has done an 'excellent' job in helping the country to recover while 14% described its performance as 'good'. Some 30% rate its stewardship as 'poor' with a further 13% rating it as 'disastrous' and 37% as 'acceptable'.

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

Guernsey date for former Chancellor



Lord Lamont, right, with Guernsey branch President Julian de G Parker, Chartered FCSI

Lord Norman Lamont, a former UK Chancellor of the Exchequer, was guest speaker at the annual dinner of the CISI's Guernsey branch.

The dinner attracted around 300 guests, including States of Guernsey Chief Minister Peter Harwood and Minister, Commerce & Employment Department Kevin Stewart. Also attending were Cees Schrauwers and Nik van Leuven, respectively Chairman and Director General of the

Guernsey Financial Services Commission, the local regulator.

Guests heard about benefits offered by the CISI from Institute Chief Executive Simon Culhane, Chartered FCSI, and Guernsey branch President Julian de G Parker, Chartered FCSI.

More than £4,250 was collected at the event for two local charities. The money will be split between The Orca Trust, which assists young people to take part in drama activities, and the Priaulx Library, which promotes and celebrates Guernsey life,

language, history, culture and literature.

Several guests tweeted from the dinner to comment on how impressed they were with the speaker, the organisation and the atmosphere.

The event, held at Beau Sejour Leisure Centre in Amherst, St Peter Port, was supported by BNP Paribas Securities Services as gold sponsor, ABN Amro (Guernsey) Ltd (silver) and Collins Stewart, ETF Securities and M&G Ltd (bronze).

CHARITY DRIVE

Supporting teenage cancer care

Retired stockbroker Alan Biggar FCSI is embarking on a third long-distance charity drive in his vintage Morgan sports car.

Alan, former Divisional Director of Brewin Dolphin in Edinburgh, will raise funds for Teenage Cancer Trust, of which he is a patron. The trust improves care for young patients in the East of Scotland and Alan has so far raised more than £250,000 for the charity.

On 12 April, he will kick off a drive around the rugby stadiums of those countries that compete in the Six Nations tournament – stopping off in Rome, Paris, London, Cardiff, Dublin and, finally, Edinburgh.

Alan clocked up 5,000 miles in his two previous round-Britain events.



Alan Biggar FCSI plans to tour the rugby grounds of all those countries competing in the Six Nations tournament

For further information, visit 6nationsdrive.com

INTEGRITY DEBATE

Discussing the plc model



Pictured at the debate are, from left, Richard Charnock, Chartered FCSI, Chairman of the CISI Integrity & Ethics Committee; Douglas Ferrans, Chairman of the Investment Management Association; Allister Heath, Editor of CityAM; Xavier Rolet FCSI(Hon), Chief Executive of the London Stock Exchange Group; and Mark Florman, Chief Executive of the British Venture Capital and Private Equity Association

The CISI annual Integrity Debate saw a strong line-up assembled to debate the question 'Does the plc model of company ownership encourage higher standards of integrity than private ownership?'. Debaters who responded positively were Xavier Rolet FCSI(Hon), Chief Executive of the London Stock Exchange Group, and Allister Heath, Editor of *CityAM* and *Daily Telegraph* financial commentator.

They were opposed by Mark Florman, Chief Executive of the British Venture Capital and Private Equity Association, supported by Douglas Ferrans, who stressed that he was speaking in his personal capacity rather than in his role of Chairman of the Investment Management Association.

Following the success of the voting system introduced the previous year, the 200-strong

audience was asked to vote before and after the debate, at Plaisters' Hall in the City of London. They gave their views on the question and a range of responses from strongly backing the plc model to strongly supporting private ownership, with graduations in between.

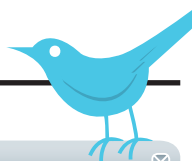
Although the motion was intended to focus on the promotion of an ethical way of doing business within the different types of corporate entity, this aspect was not highlighted other than by Xavier Rolet. Other speakers preferred to concentrate on the broader

beneficial aspects of their business model.

Additionally, apart from Douglas Ferrans, who said that he was prepared to take a more robust approach and declared that there was nothing wrong with the plc model - except that it was broken - both sides were surprisingly respectful towards their opposition.

Perhaps because of this rather restrained approach, the before-and-after voting did not result in major changes of view, with a small majority retaining the plc model as their preference over private ownership, but a substantial (32%) section of the audience deciding that there was not a major difference between the two.

View the event on CISI TV at cisi.org/cisitv



VETERANS FUNDRAISER

London Stock Exchange dinner

The Stock Exchange Veterans Association is inviting CISI members to attend its annual charity dinner on 18 April.

The event, which last year raised £20,000 for worthy causes, will take place at The Brewery, Chiswell Street in the City of London. Entertainment will be provided by singer Pixie Lott and comedian Bobby Davro. The price is £75 per person or £750 for a table of ten.

For further information, see stockexchangevets.org or contact Nick Bealer. Call +44 20 7710 9612 or email nickb@cornhillcapital.com

INDIA DEAL

CISI extends hand to secretaries



ICSI President Nesar Ahmad, left, and Kevin Moore, Chartered MCSI, CISI's Global Business Development Director

The CISI has extended its collaboration with the Institute of Company Secretaries of India (ICSI), based in New Delhi.

The ICSI, constituted by the Indian Parliament under the Company Secretaries Act 1980, is the recognised professional body in India to develop and regulate the profession of company secretaries in India.

CISI Global Business Development Director Kevin Moore, Chartered MCSI, said: "The CISI is delighted to continue to work with such a prestigious Indian institution and looks forward to growing the partnership with ICSI over the coming years."

ICSI President Nesar Ahmad said: "The ICSI takes pride in its continued partnership with the CISI. This will provide company secretaries with opportunities to enhance their career progression in various specialised areas of investment and financial services."

ONLINE

BEST OF THE BLOGS

1 tinyurl.com/barclaysbond

If ever there was a sign that we are in the midst of a seller's market for bonds, look no further than Barclays' issue of a contingent capital note. The bank broke new ground in 2012 by issuing the note which ranks below equity in its capital structure, with the caveat that if the capital ratio of the bank was to dip below 7%, the bonds stop paying their coupon and their value would be wiped out - before that of equity. That it managed to sell the entire issue is a strong indication that demand in fixed-income securities is at an unquestionable high. But what should such a bond be worth? Victoria Hasler, Fund Analyst at Brewin Dolphin, asks these questions in a blog aimed at questioning the sanity of a market seemingly so inflated that the appetite for risk is redrawing the traditional funding structure.

2 tinyurl.com/junkwarning

Instead of asking whether the appetite for junk bonds is a sign of overinflation in fixed-income securities, Matt Nesto of Yahoo! Finance asks whether stocks may be about to fall instead. In an inversion to much analysis, Nesto quotes Jonathan Krinsky, a market technical strategist at Miller

Tabak, who talks of the warning light that comes on when the performance of high-yield and junk bond exchange-traded funds start to diverge, as has been the case. In a rather unhelpful hedge on his bet, however, Krinsky admits that this "could mean nothing".

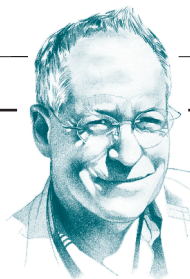
3 tinyurl.com/bondslimit

Adding some context to the debate, Isabel Hardman from *The Spectator* focuses on the biggest player currently on the bond market's buy side: the Bank of England. Quoting a speech given by Sir Mervyn King in October 2012, it seems that the Bank's policy of quantitative easing - or 'printing money' to buy bonds - will not continue indefinitely. "As QE does George Osborne a big favour by keeping his borrowing costs low, the Government will be reluctant to acknowledge that, even in the Bank's eyes, this policy has its limits," she observes. It is worth reminding ourselves that the buy side may soon lose its biggest operator.

See page 12 for more on the bond markets.

Do you have a blog recommendation?

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



CLAY 'MUDLARK' HARRIS

Natalie Penny, Quality Assurance Administrator, Rathbone Brothers

Natalie Penny little imagined when she took what she intended to be only a short-term job at Rathbone Brothers in Liverpool, that less than six years later she would be accepting an award at the Mansion House, home of the Lord Mayor of London.

Natalie, Quality Assurance Administrator in Rathbones' Client Static Data department, is due to be recognised this month (March) for achieving the highest mark in the Administration of Settlement & Investments module of the CISI's Investment Operations Certificate exam in the year to September 2012.

She was slow to realise that she wanted a career in financial services operations, but once she made the decision, she wasted no time.

After A-levels in physical education, biology and maths, Natalie had planned to go to university to study sports science. She then decided to take time out, to work for a year and travel, before taking up a place. She got a temporary job in the finance department of Belvedere School, gaining enough experience for an agency to put her forward for a job at Rathbones.

Natalie was hired to a permanent position in new accounts but she was still planning to stay for only a year.

Like other school leavers who decide not to go on to university after a gap year, Natalie says: "I got used to the money." After two years, though, she concludes: "I do find it interesting. I do want to make a career of it now."

The job basically involved inputting data, but she found it a good team in which to work and stayed for four and a half years. One of the main reasons she remained so long was that she "didn't want to go for a team leader role". She felt uncomfortable at her age taking

"I am ready now to become a team leader and hope to do so within the next year"

charge of other people, and didn't want to fall short, as she had seen others do.

Natalie was asked last year to set up a quality assurance (QA) function to check everything, both new accounts and amendments, produced by the Client Static Data department.

Natalie not only verifies new data, but also conducts regular reviews and spot audits of existing records on her own initiative, especially when she has identified vulnerable areas. Key data fields, such as bank account details, carry the highest risk and

take the highest priority.

Having created the QA role, she has a broader, in-depth view. "I've found it interesting understanding other departments. I am ready now to become a team leader and hope to do so within the next year," she says.

Natalie had asked for about two years before she was allowed to take CISI exams. She wanted to do them before becoming a team leader.

"I pushed and pushed and eventually they agreed. As with everything I do, like my driving test, I wanted to pass them the first time. I really did throw myself into it."

Rathbones' in-house Team Worker Programme helps students to assess what kind of learner they are – do they get more information from reading, from watching videos, etc? Natalie used all of the methods and passed the three modules within ten months. "I found it very useful in answering colleagues' questions because now I understand the background behind it."

With a career head start on her school friends who went to university, Natalie recently bought her first flat, and her mother – who will see her receive her CISI award – will be just as proud as if her daughter were receiving a university diploma.



Natalie Penny

Quality Assurance Administrator

Do you have a back-office story?

mudlarklives@hotmail.co.uk

Illustration: Luke Wilson

FUNDAMENTALS OF FINANCIAL SERVICES

New stepping-stone qualification



Fundamentals of Financial Services is a new qualification from the CISI that forms 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.

Key features of the qualification include:

- availability to all employees – there are no entry requirements and the exam is open to all levels
- enabling successful candidates to progress to higher level CISI qualifications
- free CISI student membership with access to a wide range of online tools to help candidates study.

The exam is supported by a CISI workbook and Revision Express elearning product.

For further information, see cisi.org/fundamentals

SELECT BENEFITS

Fixed-fee tax returns



CISI members can now benefit from an exclusive fixed-fee tax return service. Why waste your valuable leisure time doing something that clearly requires a significant amount of time and effort to get right, when for just £110 in the first year you can have it done for you?

Offered by TWD Tax Services, as part of the CISI Select Benefits package, the fee covers preparation of your return and all relevant schedules (including capital gains tax and rental income from one property), all tax calculations and liaising with HM Revenue & Customs. The service is easy to use and comes with a free helpline to answer your self-assessment questions.

If you are self-employed, TWD Tax Services can provide the service for £185 + VAT. In addition, there is a full money-back guarantee if you are not satisfied with the service*.

For further information, visit CISI Select Benefits via cisi.org/memberlogin or call 0845 129 7017, quoting PHCISI

*Terms and conditions apply. See website for further details. Correct at time of print. CISI Select Benefits is managed on behalf of the CISI by Parliament Hill Ltd of 3rd Floor, 127 Cheapside, London, EC2V 6BT. Neither are part of the same group as a provider.



Ask the experts...

FSA FINES

The most typical types of offence for which the FSA imposes fines are mis-selling (conduct) or market abuse in wholesale markets.

During the early years of the FSA, fines were relatively modest and flat. Apart from a few large exceptions – Shell was fined £17m in 2004 for market abuse, for instance – by and large fines were less than £5m. In this time, as former FSA Chairman Callum McCarthy stated, the regulator was not intended to be an enforcement-led organisation. (Prior to 2010 the FSA always denied there was a tariff [fixed-penalty] approach to fines and there were no benchmarks in the statutes or rules about gauging appropriate fines for misconduct.)

Since 2010, however, the FSA has been more proactive in imposing fines, due to a new policy that brought more transparency to the process. This focuses on disgorgement, or the giving up of profits gained through illegal practices, and contributed to fines of a different order than they were in the past, illustrated by the pursuit of JPMorgan Chase for £33m in relation to an offence regarding client money.

Prior to April 2012, fines collected by the FSA were going to its own coffers, but since that time they have gone to the Treasury.

Wider concerns

FSA action also targets the reputations of offending companies. On top of the fine that the FSA imposes, companies will typically pay remediation to parties that have been damaged. For instance, £7.5bn has been paid by banks to customers so far in payment protection insurance compensation. On the reputation side, given the size of the fine and type of misconduct it has been imposed for, a company's standing in the marketplace may

be impacted. The Financial Services Compensation Scheme also acts as a fund of last resort to refund customers of authorised financial services firms.

Driving improvements

When the FSA was created in 1997 there was an awful lot of concern that if it didn't benefit the industry, then it may encourage the regulator to take on actions that it shouldn't and impose bigger fines than it ought to, especially since it was self-funding. This is not a view that I subscribe to – as former FSA Chief Executive Hector Sants was keen to emphasise, the regulators should be going after both corporates and individuals. This combination of large fines on the corporate side and career-ending consequences for individuals is probably what helped drive improvements in conduct rather than simply generating money for the FSA. Over time however, the allocation of resources at the FSA shifted to enforcement. Looking back, it is quite obvious that more should have been devoted to prudent balance-sheet management.

Facts and figures

2012 was a record year for the FSA, which imposed total fines worth £312m. This amount was elevated by charges against Barclays for £59.5m and against UBS for £160m, in both cases for manipulating LIBOR. The FSA's previous record for fines was in 2010, when it collected £89m. Firms that settle early with the FSA, rather than appealing, will benefit from a 30% discount on the total of the fine.

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The value of FSA fines, 2006-13 (amounts in totals)

Year	Amount
2013	£99m
2012	£312m
2011	£66m
2010	£89m
2009	£35m
2008	£23m
2007	£5m
2006	£13m

Update

In early February, the Financial Ombudsman Service (FOS) told the Parliamentary Commission on Banking Standards that the FSA's fines have been ineffective and that the incoming Financial Conduct Authority (FCA) should rethink the policy of enforcing action.

FOS Chief Executive Natalie Ceeney said: "One of the problems of the past is to respond to a failing at a company with a fine. For many, it is simply a small cost of doing business and the profits from continuing can be far in excess of the fine."

"We have been public about using enforcement action to put things right by enforcing proactive compensation or forcing firms to write to customers for proactive redress rather than waiting for individuals to complain. There is increasing use of it by the FSA and fines are not the only answer."

Ceeney added: "Some indications that the FCA will look at business models, incentive schemes and penetration rates seem to be absolutely right."

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Q1. You have a loan where interest is charged quarterly at 20% pa. What is the effective annual rate of borrowing?

A) 21% B) 21.18% C) 21.35% D) 21.55%

Q2. What are traders called when they trade the same underlying asset or instrument in two or more markets to take advantage of a price discrepancy between the markets?

A) Arbitrageurs B) Dealers C) Hedgers D) Speculators

Q3. How are liabilities categorised on a balance sheet?

A) By creditor type B) Whether they are readily realisable or contingent C) By the length of time before they fall due for payment D) By the size of the amounts

Q4. What is a medium-term German government bond called?

A) Bund B) Schatze C) BTAN D) Bobl

Currency wars

Dwindling economic growth means that Japan is seeking to depreciate the yen. Yet this is not without controversy, and raises the prospect of knock-on effects around the world

IF YOU THOUGHT foreign exchange markets were boring, think again. Right now, they are where the action is. A return of the 'currency wars' – on a scale that dwarfs the spat between the US and emerging market economies, such as Brazil, in 2010 – could prove to be one of this year's biggest stories.

This is no conventional war. The weapons deployed here are hidden: monetary printing presses, political rhetoric, interest rate moves and, possibly, direct market intervention. Yet there could be huge economic consequences.

The villain of the piece, at least as depicted by its industrialised peers, is Japan. Shinzo Abe's administration has dared to make a weaker yen an explicit part of an aggressive attempt to drag Japan out of the deflationary quagmire that is preventing its recovery. Intensive monetary easing and a weaker currency should, in theory, convince people that inflation will rise, leading to lower inflation-adjusted interest rates. The thinking goes that in turn this should boost spending and investment, thus helping economic recovery.

The problem for Japan is other people, or at least other governments – namely, the US and much of Europe.

For evidence that Washington and Berlin are unhappy with Tokyo, you need look no further than the rhetoric – some of it on the record, more of it anonymously briefed – that triggered a volatile ride for the yen in the run-up to this February's meeting of the world's biggest economies.

One mysterious G7 official, assumed to be from the US, triggered turmoil when he told Reuters that a seemingly anodyne G7 statement agreeing

not to target exchange rates had been misinterpreted; it was meant, he said, to signal concern about Japan. The yen duly bounced, having fallen more than 15% against the dollar and almost 20% versus the euro since September 2012. German Chancellor Angela Merkel and finance minister Wolfgang Schäuble have also spoken out to warn Japan against deliberately weakening the yen.

The stakes are high and traders are rubbing their hands. The dollar, euro and yen are the three most actively traded currencies and volatility in these markets, lacking for much of last year, is a money-making opportunity. But if the yen continues to fall, the world's most powerful central banks might become more active. The currency war could intensify, destabilising a global recovery.

Of course, the media is playing its role, too, as a channel for the political rhetoric. David Bloom, HSBC's Lead Currency Strategist, notes that the 'currency wars' story count on Bloomberg recently jumped from near zero to more than 50 a week. The International Monetary Fund's Chief Economist believes the talk is overblown and *The Economist* magazine has called the whole thing "phoney", arguing that aggressive easing in a big economy such as Japan is good for the rest of the world, not bad. Combined with the US Federal Reserve's ultra-loose policy, this has boosted investor confidence. Currency weakness may just be a side-effect.

The danger, such as it is, lies in whether countries move from rhetoric to direct intervention. That would be more cause for alarm. We are not at that point yet. But, as Mr Bloom says: "If

“Europe has the most to lose from a weaker Japanese yen”

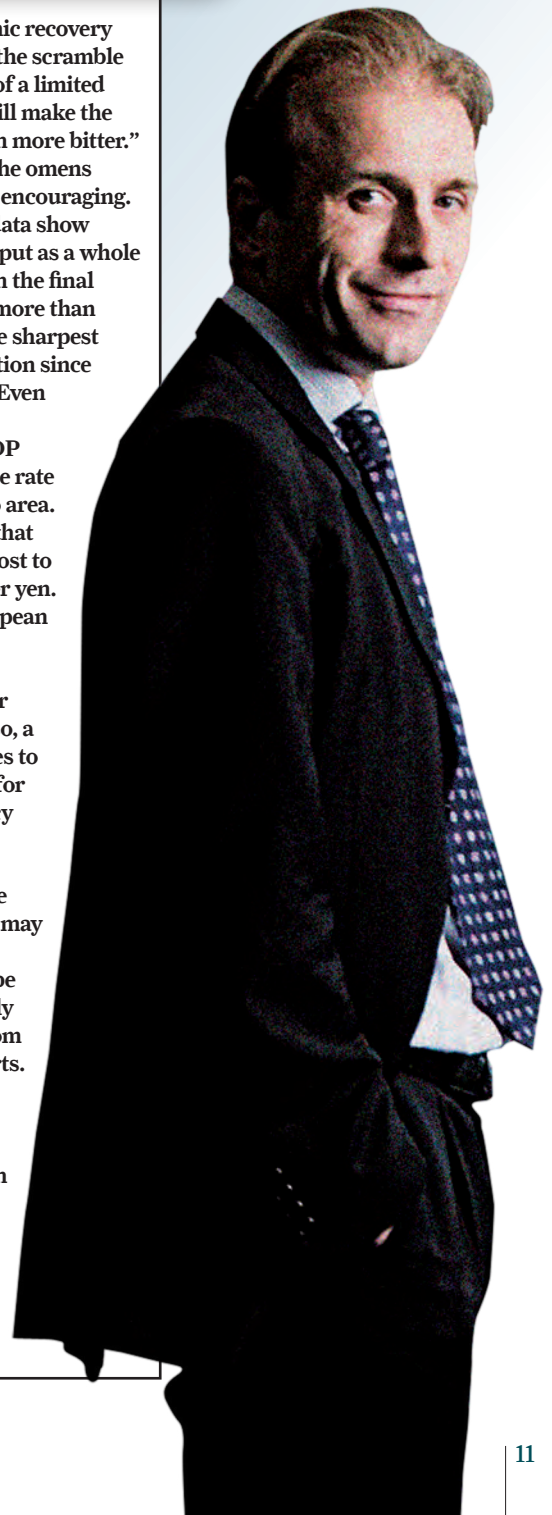
the global economic recovery stalls once again, the scramble to secure a share of a limited economic prize will make the currency war even more bitter.”

On that point, the omens in Europe are not encouraging. The most recent data show that eurozone output as a whole contracted 0.6% in the final quarter of 2012 – more than expected – and the sharpest quarterly contraction since the start of 2009. Even Germany was not immune, as its GDP shrank at the same rate as that of the euro area.

All this means that Europe has the most to lose from a weaker yen. Already, the European Central Bank has signalled it could respond to further euro strength. If so, a cut in interest rates to dampen demand for the single currency would be more likely than actual intervention in the markets. But that may depend on Japan.

I suspect Mr Abe will listen carefully to the message from his G7 counterparts. But Japan's new leadership is unlikely to water down its approach anytime soon. ■

Christopher Adams is the Financial Times' markets editor



Bubble?

TROUBLE

With yields on long-term government bonds lower than the level of inflation, it would be easy to say that the market is overinflated. Yet the new search for yield – and regulatory requirements – may make you think again. **Andy Davis** reports



IF YOU SET out to look for signs that bond markets are overvalued, it does not take long before they start appearing. For several years now, the interest rates available on long-term UK government bonds have been well below the rate of inflation – in January, investors lending to the British Government for ten years could expect an interest rate of just more than 2%, while the Consumer Prices Index stood at 2.7%. Anyone buying the bonds at that yield is guaranteed to lose money in real terms over a decade, unless inflation dives.

Even more striking is that index-linked government bonds, which should enable investors to make a

positive return after inflation is taken into account, have increased in price so much that their returns have also turned negative, meaning that the income from them no longer rises in line with inflation. Again during January, the real return on ten-year index linked gilts reached -0.9%.

The high bond prices that have given rise to these extraordinarily low yields have had profound knock-on effects. As returns from ‘risk-free’ government bonds have fallen well below their long-term norms, investors have turned to riskier parts of the bond market in search of more appetising yields. High-grade corporate bonds have seen strong demand over the past couple of years since their returns are higher than on government bonds and many large companies are regarded as being in decent financial health and, therefore, unlikely to default. However, take up for the higher yields paid by less robust borrowers has also rocketed – in the US, yields on standard baskets of so-called junk bonds recently fell below 6% for the first time.

So the high prices and correspondingly low yields now on offer in the gilts market have helped to spawn a widespread “search for yield” that is worrying many people including Bank of England (BoE) Governor Sir Mervyn King. He told MPs on the Treasury Select Committee in mid-January of his concerns that the prices investors are now paying to secure higher levels of income no longer reflect the risks they are taking on. That sounds very much like a warning that fixed-income markets are now overvalued.

On one level, it is ironic to hear Sir Mervyn raise the alarm on this score. After all, it is

arguable that the government bond markets in both the UK and the US have been effectively cornered by their respective central banks. Since 2009, the BoE has bought some £375bn of government bonds, or about 35% of all the gilts in issue, representing a large proportion of the market that is no longer available to other buyers. (Indeed, the prospect of further quantitative easing in response to the UK losing its AAA credit rating means this

scenario is unlikely to change.) As other investors have fought over the remainder, prices have risen.

At these prices, gilts appear vulnerable to any prospect of an improvement in the

UK’s economic performance. This in turn would increase the likelihood that interest rates would have to rise, which would make bonds paying current rates of interest look unattractive by comparison. Big price falls would almost certainly follow, leaving existing holders of government and corporate bonds facing large capital losses on their holdings. If and when the ‘government bond bubble’ deflates, the damage could be extensive.

How much is too much?

On the face of it then, it seems obvious that bond markets are significantly overvalued. Bill McQuaker, Head of Multi-Asset Funds at Henderson Global Investors, says: “As an investment, high-quality government bonds from the US, UK and Germany just don’t stack up.” Negative after-inflation yields have effectively made it impossible to buy them on valuation grounds, he says.

“We don’t believe we’re going to see the deflation in the West that would justify those yields, so they are fundamentally unattractive assets.” In fact, McQuaker’s funds still have small holdings of these bonds, but he treats them as a hedge rather than an investment, the idea being that when investors grow nervous, they tend to flee into these bond markets, lifting their prices as other assets fall in value.

However, in spite of the strong indications that bond markets are overvalued, there is more than one view on this question and the answer depends very much on who you ask. For fund managers who invest in order to create capital appreciation, the question of valuation is important and bond markets offer little prospect of further capital gains



Illustration: Phil Wrigglesworth



from here. Yet for others, the picture looks rather different, as Mark Hyde Harrison, Chairman of the National Association of Pension Funds, explains.

“Much of the investment world holds assets to try to make money and what you’re seeing in pension funds is that that isn’t the prime driver for many of the bond assets they hold,” he says. “What they want to do is to hold an asset which is closely aligned to the promise to pay a pension. So they are not necessarily trying to make money or say that this asset is better value than that asset. They are simply saying that if I hold this asset it will pay that obligation which I have to pay in a number of years’ time.”

This shift towards holding assets that match their liabilities has been particularly prevalent among the UK’s defined-benefit pension schemes. This trend has become much more pronounced over the past decade as most such final salary pension schemes

have either closed to new members, or even closed to further contributions by existing members. In either case, closing schemes accelerates their transition towards maturity, where all members are retired and all pensions are being paid. At this point, the trustees of a defined benefit pension scheme would typically want to hold a portfolio composed almost entirely of government

bonds that would produce the income required to pay the pensions. So the progressive closure of the UK’s final salary pension schemes has steadily altered the emphasis of their

portfolios towards government bonds, which has strongly underpinned demand from a group of investors that is not primarily seeking capital appreciation.

New regulations

Alongside this factor comes the influence of new financial regulation, for example of banks and insurers. In the cases of both the Basel III

There is more than one view on the question of value and it depends very much on who you ask

UK government bonds get downgraded

On 22 February, ratings agency Moody’s cut the UK government’s AAA rating to AA1. The immediate effect, however, was not a sudden spike in the yields of gilts, which suggests that the market had already priced in the prospect of a downgrade. Indeed, downgrades of French and US government bonds have in the past precipitated falls in yields. Rather, as the S&P went to press, the analysis Moody’s published in support of its downgrade seemed to put sterling under pressure in the foreign exchange markets. The agency’s poor view of the UK’s economic future may cause sales of sterling by foreign investors, with some commentators suggesting that the Bank of England may respond with more quantitative easing.

A consequence of weaker sterling will be higher inflation, due to the relative increase in the cost of imports. With the prospect of continued low yields and higher costs, many holders of government debt may feel that the value of gilts has decreased further.

rules on capital adequacy for banks and the Solvency 2 regime for insurers, regulators are increasing the quantity of high-quality assets that institutions must hold to provide them with sufficient core capital – the Tier 1 capital ratio specified under Basel III is one example. Under both regimes, government bonds qualify as the highest quality assets and so demand for them has been bolstered by the need of banks and insurers to build up their capital cushions.

In other parts of the financial market, for example the vast derivatives business, new regulation is also having an effect, hereby forcing the two parties to most derivatives contracts to post collateral against their positions. This change has increased demand greatly for the core government bonds, such as gilts, that are most sought-after as collateral – so much so that pension trustees are now being offered the chance by investment banks to hire out their government bond holdings in return for a fee, so that the hirer can use them as collateral on derivatives contracts.

Government bond markets may look overvalued to a broad swathe of the investing community, but to many others they meet a pressing need almost irrespective of their valuation. These investors have strong reasons to carry on buying – even as the talk of a bubble grows louder. ■





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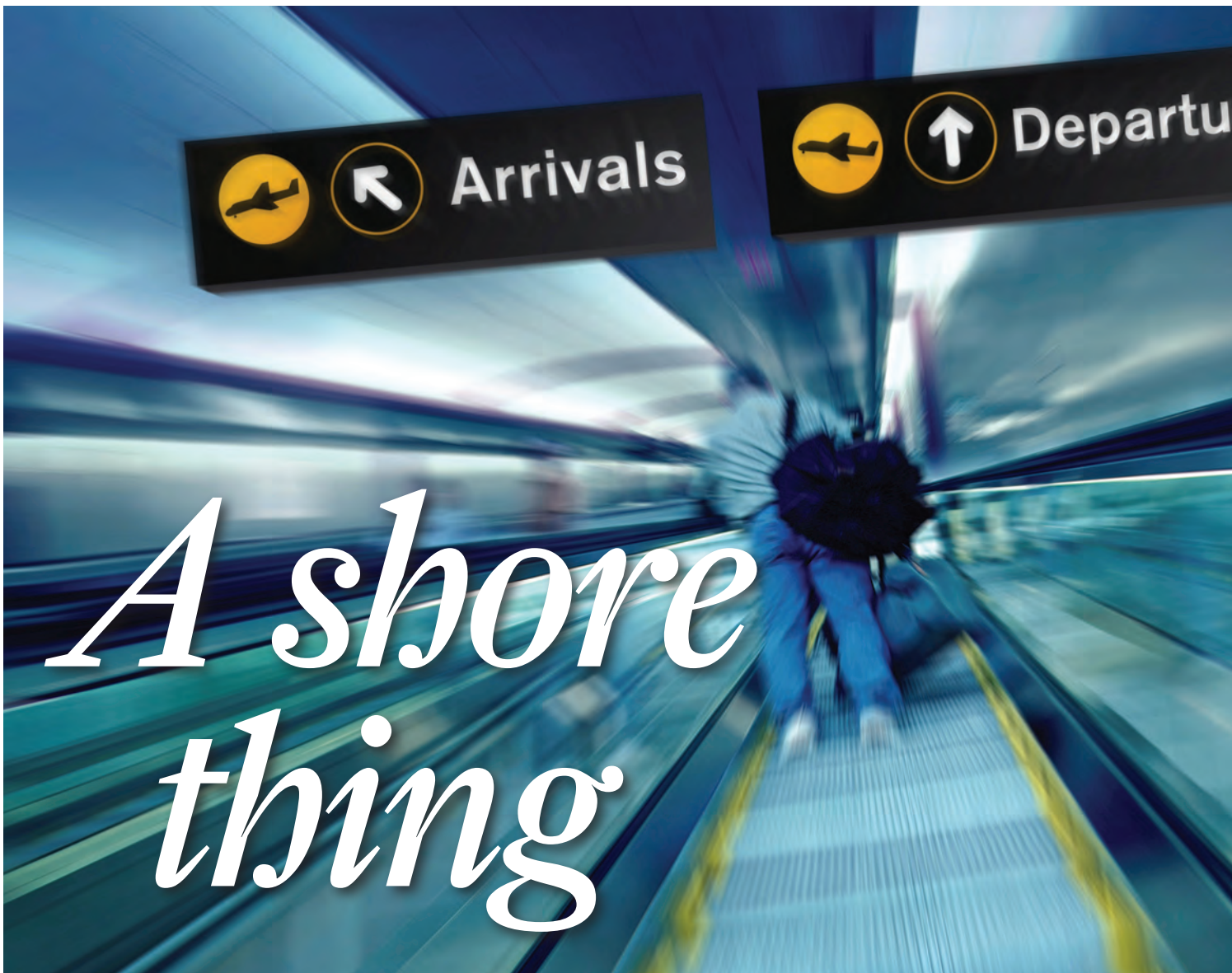
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A shore thing

The trend of jobs moving from developed nations to emerging markets is reversing. **Christopher Alkan** reports on the phenomena of reshoring and near-shoring

THE FLOW OF jobs from rich countries to emerging nations, like China and India, was once thought to be as inexorable as the tide. Doom-mongers seemed on solid ground in predicting that this exodus would end up costing America and Europe tens of millions of jobs. Satirical magazine, *The Onion*, even wrote a spoof article about Americans outsourcing to Sri Lanka the task of raising their children.

Yet recently there are signs that the bleeding is slowing. This has even been the case in financial services firms, which were among the most enthusiastic proponents of moving jobs to low-cost locations. "There is a re-balancing in the mix of where banks locate their employees," says Cliff Justice, leader of KPMG's outsourcing practice. "There is a growing sense that there are serious drawbacks to having employees on

the other side of the world and expecting them to deal with customers effectively or fit perfectly into the broader organisation."

As a result, some jobs are flowing back home or, at least, to nearby locations.

In this regard, the financial services sector is part of a broader trend. Last year, more than a third of American companies with sales of more than \$1bn were planning, or actively considering, shifting production from China back to the United States, according to the Boston Consulting Group. That proportion shot up to nearly half for companies with sales of over \$10bn. The result, the consultancy forecast, could be an extra two or three million extra manufacturing jobs in the United States by the end of the decade. Florida-based consultancy Hackett Group believes that services offshoring will gradually slow – stopping altogether by about 2022.

A judgment call

An early indication of this process in the financial services sector was the decision by Santander UK, a Spanish-owned bank that operates the fourth largest retail chain in Britain, to move call centres back to the UK

from India. The bank admitted that dealing with employees in far-flung lands "can lead to frustration" for its customers. At the time, Ana Botin, the bank's Chief Executive, said that the bank was responding to overwhelming demand from its clients for 'British' voices. At the time the bank topped the charts for customer complaints, according to the FSA. Now calls once handled in India are being fielded in Glasgow, Leicester and Liverpool.

Other banks have started to appreciate the merits of locations closer to home. Within the UK, moving jobs away from high-cost London can provide big savings without compromising customer service. Deutsche Bank is a case in point. Many roles that require interaction with clients are migrating from London to Birmingham, where the bank now has a 1,300-strong staff of wealth management, back- and middle-office employees. The bank is even shifting some of its fixed-income sales traders for institutional clients – normally considered a higher function – to Birmingham.

While locating in Birmingham is more pricey than India or Mexico – rival alternative destinations – salaries are still about 40% less than in London. Commercial property is also



Photo: iStock

Wales: the advantages of near-shoring

When London's international banks consider shifting back-office jobs to a cheaper location, India often leaps to mind. Welsh Business Minister Edwina Hart believes she has a better idea. Wales is making a strong pitch to serve London's financial institutions.

Putting business services in Wales, Hart argues, combines many of the advantages of lower costs with fewer of the downsides of more distant locations. "The price of carrying out these functions here is obviously very attractive compared with London in terms of labour and commercial property costs," she says. "Companies are concerned about more than saving money. Here they get an abundance of highly skilled workers. There is obviously no language or accent barrier and Cardiff is just two hours away on the train from London."

A host of firms have already bought this case. Supermarket chain Tesco set up a flagship customer service centre in 2006 and now employs around 1,000, fielding 30,000 calls a day from around the UK. Lloyds TSB and Virgin have also both shifted some financial and professional services over to Wales. Even Firstsource, the Indian business services provider, has chosen Cardiff as its preferred location to expand its British operations. The Welsh Government aims to boost the Cardiff area's financial and professional services employment from 124,000 at present to 200,000 by 2021.

New employers will have an ample pool of

well-trained workers to select from. Wales has 25,000 students studying financial and professional services, which is more than any major city in the rest of the UK. The country also has a large number of workers with foreign language skills, which are in high demand from international businesses. There are other Welsh selling points that can't be taken for granted in many offshoring locations, such as strong data security and easy access to government.

The rising use of Wales as a back-office location for London fits into the global trend towards near-shoring – locating service facilities closer to home. Hart even considers Wales' main competition to be a local rival, Scotland. "Using a cheaper location nearby can potentially give the best of both worlds," says Cliff Justice of KPMG in Houston. "While the cost savings are smaller, you don't get the same cultural frictions. It has the added benefit that such facilities can be more easily monitored by head office."

Many companies will still opt for the larger cost savings offered by the subcontinent. In January, media reports suggested that Barclays was poised to export hundreds of back-office positions to India. Yet Wales is now giving the emerging markets a run for their money.

The CISI is backing the Welsh Government initiative. As part of its support, the Institute will launch a new South Wales branch within the next few months. The branch will run a programme of events, focusing on members' CPD needs and providing networking opportunities.

far cheaper. With wages in India surging, the wage differential with regional British cities has been narrowing. That helps explain the strong growth of Cardiff as a financial hub. Like Birmingham, it also offers an appealing mix of proximity to London, highly skilled employees and low costs. There has been a 60% surge in financial services employment in Cardiff over

"When you need someone on the other end of the phone, it makes sense to locate such functions relatively close"

the past decade, a swifter increase than any other British city.

In the case of European Union companies, many of the service jobs are heading to Eastern Europe rather than to Asia. "Particularly when you need someone on the other end of the phone, it makes sense to locate such functions relatively close," says Michael Janssen, Chief Research Officer at the Hackett Group, a

research company working in financial services. "Eastern European nations are also better placed to provide a workforce that is fluent in French, German or Spanish."

Closer to home

Nor are the Wall Street banks being left behind. With more stringent regulations cutting into revenue after the 2008 financial crisis, US banks are looking harder at ways to boost returns. "We are now five years past the 2008 financial crisis and the good days are not returning for the banks," says James Malick, a partner at the Boston Consulting Group, who helps banks relocate. "Since tighter rules make it harder to expand revenues, the focus is on cost cutting." That means shifting functions such as accounting, human resources and compliance out of the pricey New York area.

But Malick adds that banks are increasingly aware of the advantages of having more functions closer to home. "A team in Utah is far easier to manage from New York than one in India," he says. "You can keep an eye on what is going on and fly out more frequently."

The winners are the likes of Salt Lake City, the capital of Utah, where investment bank

Goldman Sachs now has its sixth largest office. Its employee numbers there have doubled since 2009 to 1,400. (By contrast employment in the Big Apple is flat.) Goldman has even been doing more high-value activities in Utah, such as research and investment management.

Other states are also lobbying hard for the business flooding out of New York. Delaware offered \$10m in incentives to convince JPMorgan Chase to place more than 1,000 jobs in the state. A similar offering helped convince Credit Suisse to bring jobs to North Carolina. Aside from fiscal goodies, banks can also often halve their wage bills by moving away from America's most expensive city.

Of course, not all of the jobs lost to overseas workers will return to North America and Europe. "The majority of the more mundane positions that left for India or the Philippines are gone for good," says Justice of KPMG. Hackett Group believes that the subcontinent will continue to pick up business. But many of the jobs that drift out of cities like London and New York will not venture so far. More will at least remain within the country – that has the added advantage that the wealth created by the financial sector will be spread more evenly. ■

In 1995 Dr Michael Taylor's idea for Twin Peaks regulation could not have been more out of step with political momentum. Now that has all changed. **Rob Haynes** caught up with him

Taylor made

FEW PEOPLE IN regulatory circles are ever labelled as a Bolshevik agitator. Fewer still enjoy a revision of history that not only vindicates their work, but spurs a whole-hearted endorsement of their views. Yet this is the position in which Dr Michael Taylor finds himself, some 18 years after the publication of his seminal work advocating a 'Twin Peaks' regulatory system of financial services.

The break-up of the FSA into the Prudential Regulation Authority at the Bank of England (BoE) and the Financial Conduct Authority – the essence of Twin Peaks – heralds a conclusion to the debate started by Dr Taylor back in 1995, about the effectiveness of a single financial regulator. This debate is one centred around the effective separation of regulating for consumer issues, and regulating the financial system in totum.

Dr Taylor, now sitting on the Financial Stability Board Secretariat at the Bank for International Settlements (BIS), says: "The main problem with a single body is that the consumer side of regulation starts to dominate the systemic, prudential side." The specific charge is that when the FSA was formed back in October of 1997 under the landslide victory of Tony Blair's 'New Labour' Government, consumer issues drove a political process that was more attentive to the immediate financial needs of voters. Indeed, such was the weight of Blair's victory at

the polls that the party exhibited little desire to consult on whether the organisation – a single unified regulator – was ever fit for purpose. Instead, the party simply pressed ahead and created the FSA. In such an environment, Dr Taylor's views were seen as radical to the point of revolutionary – and certainly out of favour with political thought at the time.

Since the financial crisis, however, the idea of Twin Peaks has returned to the fold of regulatory thought, and Taylor's vision is also vogue beyond British shores. The system has long been adopted in Australia and the Netherlands, while Twin Peaks regulation has been mooted in East Asia and South Africa. In the summer of 2010, the coalition Government announced plans to scrap the FSA in favour of dual regulatory bodies under the auspices of the BoE. Any sense of personal victory, however, is one that Dr Taylor is keen to play down. "It's not really a sense of vindication that I feel. Rather a sense of lost opportunity for not being able to have the proper debate back in 1997."

Purely academic

This rather philosophical consolation chimes with Taylor's academic grounding. The 'Dr' in his title refers to the PhD he earned at Oxford studying the intellectual achievements of the Victorian philosopher, biologist and sociologist, Herbert Spencer – a man who still inspires awe in Taylor's voice. "It's the sheer breadth of Spencer's interests that is remarkable," he says, although he is keen to qualify that the man is misunderstood. Spencer's famed "survival of the fittest" expression is one that Taylor feels is clearly taken out of context. Spencer, he stresses, was a utopian visionary rather than a man who believed in nature red in tooth and claw.

If the evolutionary reference to survival is one that has been misplaced, another is more fitting of his career. Adaptation appears to have been the watchword for much of Taylor's professional life, not least in joining the BoE with academic credentials that are a far cry from economics.

"I studied economics as part of my undergraduate course, but back when I joined the Bank they were very accepting of different academic backgrounds. It was more the aptitude to learn that was important. Regrettably the Bank has changed in recent years, meaning there has been an exclusive focus on PhD

economists. There's less diversity in points of view, and it's hard to argue it has resulted in a better understanding of the way the financial system actually operates. History is actually a better guide to understanding financial crises than most of modern economics."

Hardened campaigner

There is a campaigning air about Dr Taylor that suggests a man keen to improve the quality of debate in society at large. Having written for the *Financial Times*, where he has argued in favour of simplified international banking standards, Taylor is not afraid of confronting issues face on. He is also a man keen to preserve his intellectual independence. Having resigned from the BoE the weekend that Barings Bank collapsed – "the two events were not connected" – Taylor was keen to pursue academic interests unfettered by the views of the Bank, and Twin Peaks was the result.

In the years since then, Taylor has worked for the International Monetary Fund in Indonesia in the aftermath of the East Asian Financial Crisis from 2002 to 2004, Hong Kong and from

"It's not really a sense of vindication that I feel. Rather a sense of lost opportunity"

2008 until the start of 2012 was Adviser to H.E. Rasheed Al-Maraj, Governor of the Central Bank of Bahrain. True to the theme of adaptation once more, he is keen to stress that working in different cultures has opened doors. "Being flexible and working abroad has presented me with better opportunities than if I had stayed in the UK." Fortunately he is a man who relishes the rigours of travel and his wife – who is from Singapore – is a keen travelling companion. The most recent stage in this journey has taken him to Basel, Switzerland, in his role with the BIS but you sense this isn't the last stop.

Yet for the opportunities that present themselves overseas, the overarching theme of Taylor's career remains Twin Peaks. Asked if there is a danger that the regime may one day simply fall out of fashion, he hopes it "may be more resilient than that". ■

CV snapshot

- 2012** – Member of Secretariat, Financial Stability Board
- 2008** – Adviser to the Governor, Central Bank of Bahrain
- 2007** – Director of Research and Investor Awareness, Capital Market Authority, Saudi Arabia
- 2004** – Appointed Head, Banking Policy, Hong Kong Monetary Authority
- 1999** – Becomes IMF Financial Sector Issues Resident Representative in Indonesia
- 1995** – Works on banking supervision policy at the Bank of England
- 1989** – Earns Doctorate in Philosophy, Oxford University



Dr Taylor's plan for Twin Peaks regulation

In his vision for Twin Peaks regulation, set out in 1995, *Twin Peaks: A Regulatory Structure for the New Century* and follow-up papers, Taylor argued for separation of regulation over prudential matters in the banking system from consumer issues. The first category essentially concerns the risks and effectiveness of the system as a whole, whereas the latter would include individual conduct, such as payment protection insurance misselling and manipulation of LIBOR.

Despite being an advocate for the Twin Peaks model, Dr Taylor remains a healthy sceptic of any regulatory system.

"Nonetheless, although Twin Peaks has its attractions, it is necessary to be cautious about trying to introduce too much neatness and tidiness into regulatory structures. The objectives of financial regulation can be neatly packaged into two, but the range of regulatory functions is far more diverse," he wrote in 2009.

In the LINE OF FIRE

Outsiders view a career in the finance sector with caution, as personal liability increases. Yet ambitious executives may just have to get on with their jobs. **Dan Barnes** reports

INCREASING PERSONAL RESPONSIBILITY aimed at senior decision-makers, and other holders of significant influence functions, may be dissuading newcomers from joining firms perceived to be at risk, or from moving into finance in the first place.

However, industry veterans are just toughing it out, says Anne Murphy, Partner and Chief Operating Officer for the financial services practice at Odgers Berndtson, an executive search specialist.

“There is a lot more visibility of senior staff and pressure related to that and you might conclude that people would be reluctant to take on those roles; in fact we haven’t seen that,” she says. “As the people we are considering for executive or non-executive roles at a senior level have been in the business for 20 to 30 years, they are used to the environment and appreciate why there is increased scrutiny.”

It is greater scrutiny, rather than a change in the rules, that has led to larger numbers of enforcement actions against individuals. In the UK, all persons approved by the FSA have been subject to its ‘Statements of Principle’, which are high-standard obligations such as exercising due diligence, acting with integrity and by the proper standards of market conduct. Breaches of these can lead to fines or prohibition, alongside criminal charges that can affect the individual, such as misleading the market and insider trading.

Although these obligations have not changed in the last decade, the determination of the FSA (and its future descendants) to enforce these rules has hardened, making life tougher for people in positions of significant influence.

Richard Balarkas served as President and Chief Executive Officer at agency broker Instinet from 2009 to 2012. “At Instinet, my legal and compliance teams seemed to be coming to me with increasing frequency to tell me that I would be personally liable for one thing and the CFO would be personally liable for another,” he says.

The punitive fines levelled at financial institutions during the financial crisis appeared ineffective; any costs were typically passed on

to customers or occasionally shareholders. In its review of the Royal Bank of Scotland’s collapse, the FSA stated that “disciplinary action against the individuals responsible for any misconduct would serve as a much greater deterrent than action against the firm”.

Down to the individual

“Proving that a single person is culpable can be very difficult in relation to large firms, particularly when you have failures happening over a number of years,” explains Tom Spender, Head of Retail Enforcement at the FSA.

“We are aiming to have a better focus and a cradle-to-grave approach to senior management responsibility. From the outset we’re trying to have greater clarity on roles and responsibilities – we’re auditing significant influence roles – so people in large firms know who is in charge of what. The authorisations team at the FSA has conducted much tougher interviews on some applicants from major firms since the crisis. We’re also making more use of attestation so individual senior managers at firms are being asked to take personal responsibility for fixing problems or checking that firms are compliant on a particular issue, taking personal responsibility if that is not the case. When things do go wrong, the enforcement team is making investigation of senior management culpability a priority.”

One example dates back to September 2012, when the FSA fined Peter Cummings, a former executive director at HBOS, £500,000 and

The cost of insuring the directors and officers of financial institutions is definitely going up

banned him from holding any senior position in a UK bank, building society, investment or insurance firm for failing to “exercise due skill, care and diligence by pursuing an aggressive expansion strategy within the Corporate

Division, without suitable controls”. To date this represents one of the largest fines that the regulator has imposed on an individual, although Cummings contests the FSA’s decision and says he is unable to pay the legal costs to mount a proper defence.

This is something that John Pottage, former Chief Executive of UBS’s UK wealth management business, managed to achieve, however. In April last year, he successfully overturned an FSA ruling against him for misconduct, and a £100,000 fine.

The regulator is not alone in its hunt for the decision-makers and other holders of significant influence functions, such as compliance officers. Civil litigants are also bringing senior staff to task where errors have allegedly been made.

“The number of people bringing action against directors and officers of financial institutions; the range and breadth of avenues of potential liability that are being explored; the pace by which these claims are emerging; these are all growing,” says Jeff Grange, Chief Underwriting Officer at Torus Speciality Insurance Company.

Side-effects

If the desired effect is to create better management, there are several potential side-effects, say industry observers.

“I am not an apologist for badly run banks and the toxic cultures that brought about the financial crisis, but it seems to be an unhealthy form of moral relativism that society increasingly expects honest and competent CEOs of large and complex organisations to consider falling on their swords if something happens to go wrong ‘on their watch’,” warns Balarkas. “My concern is that the increase in regulation and the way it seems to be applied may not necessarily have the best outcome. It establishes a form of negative selection in that a senior executive’s ability to do their job and their effort in trying to improve controls and manage risk across the board, ultimately matters less than whether they fail a single test.”

Karina Robinson is Founding Principal at

Robinson Hambro, an executive search firm that specialises in placing non-executive directors who represent shareholders at board level.

“There are two issues around reputational risk that can be significant,” she says. “First, people are more wary of joining the boards of particular companies perceived as risky. Secondly, the FSA has to approve board members of major financial services companies; at one point some of the candidates they were turning down surprised people. There was a fear that one could be turned down unjustly and labelled ‘not good enough.’”

As the pool of potential non-executive directors is small, there is the potential for over-zealous regulators to deter good candidates applying for non-executive positions, notes Robinson, particularly from other industries, thereby limiting the governance function of a firm.

“That is a bit of a problem for the industry because arguably you do not just want bankers on a bank board – there can be a benefit in having diversity in industry profile around a table,” says Murphy. “That must be balanced with people who understand the product suites and who can run the company.”

Personal risk has also grown to the extent that many of the big firms are no longer eligible for effective insurance cover.

“The cost of insuring the directors and

officers of financial institutions is definitely going up,” Grange says. “Many of the global money centre banks that would be implicated in LIBOR, for example, cannot get traditional D&O [directors and officers liability insurance] coverage.”

Spender points out that if rigorous checks deliver a healthy market, the FSA is doing its job by keeping senior management up to scratch.

The zeal of the FSA has resulted in 21 criminal convictions for insider dealing since 2009, 52 disciplinary cases against individuals in 2012 (including 28 fines totalling £11.3m) and 39 prohibitions.

This has affected both large and small firms. In May 2012, a tribunal upheld a 2011 ruling against Sachin Karpe, a former head of desk at UBS International Wealth Management. He was fined £1.25m and banned from engaging in FSA-regulated activity on the grounds that “he was not a fit and proper person as his conduct demonstrated a lack of honesty and integrity.”

In the same month, Yohichi Kumagai, former Executive Chairman of Mitsui Sumitomo Insurance Company (Europe), was fined £119,303 and banned from performing any significant influence controlled function for regulated activities on the grounds of not being fit and proper to perform such functions (see box).

In March 2012 James Corr, the former

Finance Director of sub-prime lender Cattles, was fined £400,000 and banned from regulated activity for misleading the market.

“The obligations have always been there,” says Spender, “but we have become more rigorous and vigilant in terms of making sure we can hold senior management to account.” ■

The buck stops

Yohichi Kumagai was Executive Chairman and Managing Director of Mitsui Sumitomo Insurance Company (Europe) from October 2009 to March 2011. During this time the firm grew and diversified into a new business area by writing business for European clients through three branches in Europe. The FSA warned that this change in strategy would necessitate close oversight from the board, which required it to receive good quality management information. There is some speculation that the deferential Japanese working culture prevented Kumagai, who had limited experience of working in Europe, from responding to the FSA in the proactive manner it desired.



A forecast of sluggish trend growth for the UK is a major concern for long-term investment returns. **Chris Wagstaff**, Visiting Fellow at Cass Business School, explains

Trend growth hits ROUGH WATERS

THROUGHOUT 2012, the International Monetary Fund (IMF) progressively cut its forecast for global growth for 2012 and 2013. Nothing remarkable in that you might say. Neither was the further trimming of expectations this January. Nor, in fact, was the clear delineation made by the IMF between forecasts of continued sluggish growth in the advanced economies and the economic momentum that continues to set the more energetic emerging and developing economies apart from their more mature counterparts in this two-speed world.

Perhaps more remarkable, though, was the IMF's recent sharply revised estimate of the UK's sustainable, or long-term trend, growth rate from 2.7% per annum to just 1.7%. Not that the world's sixth-largest economy was singled out. Indeed, the US, the world's largest, and Japan, the third largest, both received similar treatment. Of the advanced economies, only Germany surfaced unscathed with its trend growth rate of 1.5% remaining intact.

Changes to trend growth of this magnitude are very rare indeed. In fact, trend growth in the UK hasn't changed much at all since the

Industrial Revolution, despite the many innovations in the intervening 160 years. That said, the IMF admitted that its estimate of the UK's sustainable growth rate pre-crisis was over-inflated given the role of credit in exaggerating the UK's rate of growth at the time.

Trend growth matters in an investment context as it forms the bedrock to long-run investment returns. Indeed, the long-run return on any risky investment comprises the trend economic growth rate, expected inflation rate and an appropriate risk premium, which, depending on the type of investment and the economic and political backdrop at the time the investment is made, should compensate the investor for factors such as unexpected inflation, illiquidity, volatility and the risk of default.

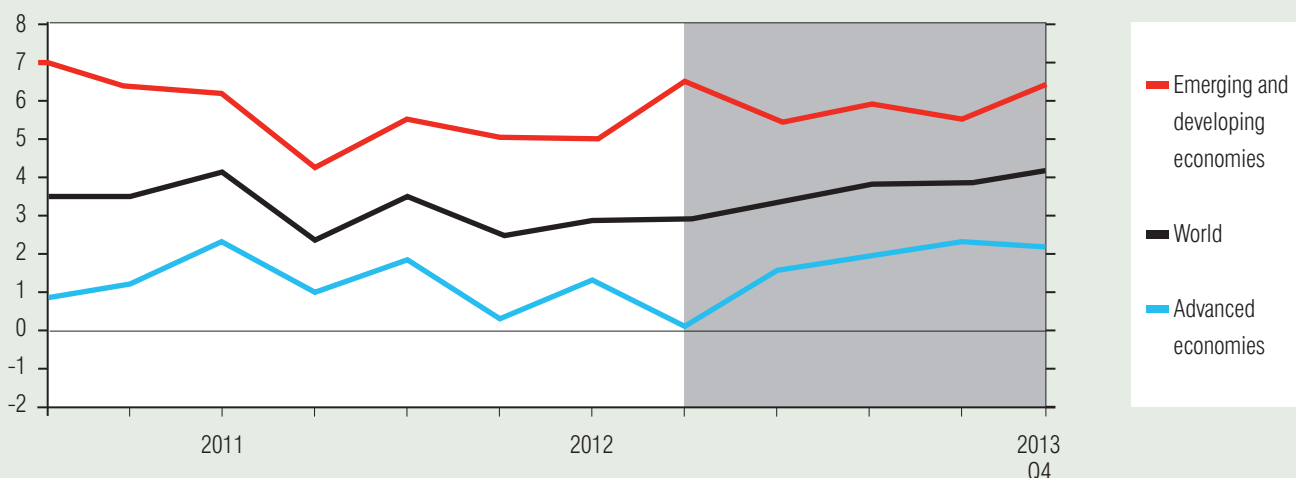
So why the IMF's dramatic paring of trend growth? Well, trend growth is determined by a country's potential output which, in turn, is fuelled by the size, growth and productivity of the labour force and the available capital stock. Just as trend growth tends to stay relatively constant over time, so too do its component parts unless, of course, the economy is hit by a massive shock, which can be positive or negative.

Overview of IMF world economic outlook projections, year on year (%)

	Projections		
	2012	2013	2014
United States	2.3	2.0	3.0
Germany	0.9	0.6	1.4
France	0.2	0.3	0.9
Italy	-2.1	-1.0	0.5
Japan	2.0	1.2	0.7
UK	-0.2	1.0	1.9

Source: IMF, World Economic Outlook Update, January 2013

Global GDP Growth and Projections – (Percent; quarter over quarter, annualised)



Source: IMF, World Economic Outlook Update, January 2013

An example of the former has been the recent growth in the size of the UK labour market. This is attributable to both an influx of young immigrants, compensating for the low point in the UK birth rate in the mid-1980s, and the growth in the number of 20 to 30-year-olds flowing from the increased UK birth rate of the late 1980s and early 1990s. Moreover, a further surge in the UK birth rate since 2001, principally stemming from the higher fertility rates of young immigrant women and increasingly from older indigenous women, albeit rates still far below that experienced in the baby boom of 1945 to 1965, would seem to augur well for the future. Based on the current trajectory, the UK is set to become the most populous nation in Europe by 2040. However, big is not necessarily beautiful as, just in so many other developed nations, the UK will spend the next 30-plus years battling the demographic headwinds of an ageing population as the baby boom generation retires.

Then there's the thorny issue of productivity, the larger and arguably more important component of the UK's trend growth rate, which continues to fall woefully behind that of the UK's peers. This stems from several sources, the first of which is the UK's failure to make its young adults more employable and productive. Running a close second is the sheer amount of once-productive capacity that has permanently disappeared from the economy in the aftermath of the financial crisis, as disillusioned workers drop out of the workforce and the capital stock with which they once worked lays idle and becomes obsolete. Indeed, private-sector capital spending to grow the nation's capital stock has been conspicuous by its absence as firms, reluctant to invest, have instead allowed cash to idly accumulate on their balance sheets.

Making the downgrade

There are, however, a number of other reasons for this downgrade in sustainable growth, the first of which, perhaps ironically, concerns the size of the financial sector and the extension of credit to the private sector. In a working paper, titled *Too Much Finance?*, the IMF suggests that, while the financial sector is supposed to promote growth by allocating capital to the most productive parts of the economy, this can backfire. If the financial sector becomes too large – defined as when credit to the private sector reaches 80% to 100% of GDP – then the odds of a crisis and the misallocation of capital to less useful sectors of the economy are dramatically increased, so lowering the trend growth rate.

Moreover, just as Japan discovered to its cost during its lost decade, trend growth can also be compromised by not forcing undercapitalised banks to recapitalise or, *in extremis*, fold. Similarly, the increasing prevalence of zombie companies – those without sustainable business models that cannot invest or innovate and so slowly lose customers and employees – being kept alive by banks' reluctance to write down non-performing loans and as an unintended



Photo: Getty

consequence of an ultra-loose monetary policy, is another significant drag on growth.

Then, of course, there's the size of public debt and the inference from a number of empirical studies that once a country's public debt-to-GDP ratio hits 90% to 100%, the result is a 1% decline in the trend growth rate. However, although it is highly unusual for heavily indebted countries to reduce their debt burden by anything more than 10% over 15 years, history tells us that all is not lost.

Those that put their indebtedness on a downward trajectory, with debt reduction

Trend growth matters in an investment context as it forms the bedrock to long-run investment returns

based on enduring structural reforms rather than temporary measures, while employing an accommodative monetary policy – principally ultra-low real interest rates (notwithstanding the unintended consequence noted above) – and Keynesian growth-supporting initiatives that benefit from the multiplier effect (one person's expenditure is another's income), such as infrastructure spending, can, in fact, grow at a faster rate than less indebted countries, whose indebtedness is on an upward path. Indeed, this is exactly what the US did post-war, eventually putting trend growth back on an even keel. This latter point has, of course, not been lost on the current coalition

Government, which has sought to address the wholly inadequate investment made in the UK's national and regional infrastructure post-war and capture the valuable multiplier effect by implementing the UK's first ever National Infrastructure Plan. When announced in 2010, this envisaged £250bn of trend growth-enhancing capital spending.

Suffice to say, with the UK very much in fiscal lockdown mode and with little sign of the Government abandoning its fiscal austerity programme, despite the very real possibility of an imminent and unprecedented triple-dip recession, the UK faces an immensely challenging time ahead. However, with every suggestion that public-private infrastructure spending will yet take centre stage, against the backdrop of an ultra accommodative monetary policy, means that history just might be about to repeat itself. If it doesn't then the UK may well face its own lost decade. ■

Chris Wagstaff will present a CISI CPD event at Cass on 16 April covering the UK pensions problem, the structure of the UK pensions system and future challenges. For further information, please visit cisi.org/events

*To access the IMF's paper, *Too Much Finance?*, imf.org/external/pubs/ft/wp/2012/wp12161.pdf*

Chris Wagstaff is a Visiting Fellow of Cass Business School, a pension scheme trustee and co-author of *The Trustee Guide to Investment*



The *bonus* question

Falling tax rates may encourage employees to request to have their bonus payment deferred until the next year. Are all cases equal or may some staff be treated differently from other workers?

GEORGE IS A PRODUCTION MANAGER in Elixir, the UK subsidiary of an international electronics firm, and he considers himself fortunate to earn more than the national average salary. While his income is not subject to the 40% 'higher' rate of tax, it is on the margins. Elixir has an incentive scheme designed to reward staff who make valuable suggestions that benefit the firm's performance and George, together with a young colleague, Dean, puts forward an idea that removes a production bottleneck and results in a measurable improvement in productivity.

As a result of this suggestion, George and Dean are each awarded a bonus of £5,000 but they are advised that because of the timing of the announcement, there is some uncertainty whether the award can be processed in time to include it in the March payroll. Both men are delighted to receive the award and Dean, who is struggling to pay for his holiday in Thailand last Christmas, is keen to ensure that payment will be made in March. George, on the other hand, calculates that this bonus will push him over the tax threshold, so that £4,000 of his bonus will be subject to tax at 40%, rather than the 20% rate that would be applied to the rest of his income. Dean earns less than George and he assumes that none of Dean's bonus would be subject to more than 20% tax.

George feels aggrieved that he might have to pay twice as much tax as Dean and wonders whether he can do anything about it, since it will make a big difference to what he and his wife can spend on the new kitchen they have long been planning. That evening he discusses the matter with his wife, who tells him that he must speak to whoever organises the company payroll and see that payment is not made until April.

The next morning, George tells Dean that he is going to see Nicola, his HR Manager, who is responsible for organising the company payroll, to try to get the payments delayed until

April, because it will save him hundreds of pounds in tax. Dean does not respond.

When George meets Nicola, she congratulates him and says that he will no doubt be pleased to learn that she is confident that she will be able to get the award payments included with the March salaries. George looks horrified and Nicola asks him what is wrong. "That will cost me £800," he replies and explains why, adding that he is sure that Nicola and Elixir will be sympathetic towards him. Nicola is taken aback at this, saying that she had not appreciated the tax impact on George and would have to think what can be done, considering there is little time available.

George returns to work, leaving Nicola with a dilemma. In trying to accommodate Dean's need to receive his award payment as soon as

Should companies preserve the principle of equity, regardless of who is being paid and the amount?

possible, she is in danger not only of upsetting George, but costing him money and Nicola worries whether she will be able to meet the wishes of both Dean and George.

Although Nicola did not suggest that she could do anything to help either George or Dean, she arranges to speak to share her dilemma with Richard, the Finance Director. Richard says that he quite understands George's feelings, but that income tax is something that everyone has to pay and the company avoids getting involved in any sort of manoeuvres that might attract unwelcome publicity. In any event, the award has been made during the current year and will be included in the report and accounts for the year just ending. Accordingly, Elixir has no

real justification for delaying the payment until the following year.

At the same time as George and Dean are awarded their bonus, the Board of Elixir's parent company is considering the group's anticipated results, which are particularly good. As a result, a proposal is discussed to award Walter, Elixir's Managing Director, a bonus of £100,000. At the meeting, when the decision is ratified, a member of the compensation committee suggests that it would be sensible for the committee to consider how to make the payment in a tax-efficient manner. If they delay payment until the following year, a lower tax rate would be in force, thus saving Walter some £5,000 in tax.

A member comments that the committee should be aware that any apparent delay to an award simply to permit Walter to benefit from a lower rate of tax might attract unwelcome publicity. The Chairman considers that this is a justifiable risk, but that losing a key executive because you do not offer a sufficiently attractive compensation package is not. The committee does not demur at this, and agrees that the 'bonus' should be paid in the form of a retention payment, which can justifiably be made once the lower tax rate applies.

In due course, the executive team from Elixir meets and the final results for the year are discussed, including the funding of end-of-year bonus payments. Richard has been pondering what Nicola has said to him about the tax impact on George's bonus of it being taxed at a higher rate and what, if anything, Elixir might, or should do, to help him. Accordingly, at the end of the meeting, he raises the matter as a topic of general interest for consideration by the executive team. This comes in the light of public debate about the morality of deferral for tax purposes of bankers' bonuses, which reward people who are already highly paid, in the knowledge that a lower top rate of tax



Photo: Getty

will apply in the following year.

Walter says that he does not see it as an issue; it is no different to suggesting that someone should not be awarded a pay rise if it will take them into a higher tax bracket and that instead, companies should try to find alternative means of rewarding their staff. That approach, he adds, had led to the rash of non- or low-tax items, such as company cars and ‘entertainment allowances’, which were paid until they were made unattractive by subsequent tax charges being imposed on them by HM Revenue & Customs.

As the other members of the team nod in apparent agreement with Walter, Richard, who is unaware of the pending award to the Managing Director, asks how that argument is different from the position of a highly paid individual who receives a sizeable bonus,

payment of which is deferred to enable them to take advantage of the lower tax rate that it would attract the following year, when the top rate of tax would be reduced by 5%.

In fact, adds Richard, this is the perfect example of the well-off being treated differently to the lower-paid employee. The impact of the 20% increase in tax paid by the lower-paid employee on his relatively small bonus would be significantly higher than that on the 5% saving on the high earner award, even if the actual monetary amount was much smaller. Accordingly, he says that there must be a strong argument that, in the interests of equity, companies should not differentiate in how they treat any discretionary awards, irrespective of the amount or the beneficiary.

Walter thanks Richard for his “interesting observations” and the meeting closes. ■

The first quarter of the year often sees lurid headlines about the size and iniquity of ‘fat cat’ bonuses and this has been given an added twist this year because of the public discussion about a proposal by Goldman Sachs to defer payment of bonuses so as to take advantage of forthcoming lower-tax rates for high earners. Cue predictable outrage, including from the Governor of the Bank of England.

Is this outrage based more on the size of the proposed bonuses and levels of income of the beneficiaries, rather than the principle itself?

What do you think? If you have any comments email richard.mitchell@cisi.org or visit cisi.org/sireview

Need to read

The latest publications and study aids supporting CISI qualifications

NEW WORKBOOKS AND EARNING EDITIONS

CISI Study Material and the New Regulatory Environment



From 1 April 2013, the FSA will cease to exist and in its place will be three authorities – the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and the Financial Policy Committee (FPC). As a result, new workbook and elearning

editions (covering exams from 1 April 2013) are due out now.

- *UK Financial Regulation* (formerly *FSA Financial Regulation*) – part of Investment Operations Certificate (IOC) and Certificate programmes
- *Principles of Financial Regulation* – part of IOC and Certificate programmes
- *UK Regulation & Professional Integrity* (formerly *FSA Regulation & Professional Integrity*) – part of Investment Advice Diploma programme.

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

WORKBOOKS AND EARNING EDITIONS



Investment Advice Diploma

Derivatives: Provides those advising and/or dealing in derivatives with the knowledge and skills required for their job roles.

Securities: Ensures that candidates can apply appropriate knowledge and understanding of securities, markets and related functions and administration.

UK Regulation & Professional Integrity: Ensures that candidates can apply appropriate knowledge and understanding of UK financial markets, regulation and ethics to financial planning, advice and management for retail customers.

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

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

Private Client Advice: Provides candidates with the appropriate knowledge and understanding to enable them to advise on packaged products with the planning skills for financial protection, pensions and retirement, building on the core knowledge gained from the UK Regulation & Professional Integrity and Investment, Risk & Taxation units.

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

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NEW WORKBOOK AND EARNING EDITION



Taxation in the UK for Individuals & Trusts

The object of this new level 4 qualification is to ensure that candidates demonstrate the ability to apply the knowledge, theory and practical techniques required in

order to assess a client's current financial position and future requirements, make suitable investment recommendations, monitor performance and respond appropriately to changing needs and circumstances. The exam will test candidates' abilities to apply knowledge and understanding of taxation of investors and investments in the UK. The corresponding workbook and elearning product are due out now (for exams from 12 March 2013 to 11 March 2014) and will cover:

- income tax
- taxation of investment income
- National Insurance Contributions
- Capital Gains Tax
- residence and domicile
- stamp duty
- tax-planning strategies.

Price: £100 for combined workbook and elearning product

WORKBOOK AND EARNING EDITION

Certificate in Corporate Finance



The Certificate in Corporate Finance is aimed at individuals working in corporate

finance and related areas, such as venture capital, who need to demonstrate a sound understanding of both regulatory and technical aspects of the subject. To achieve the Certificate in Corporate Finance, candidates must pass two exams: Corporate Finance Regulation, and Corporate Finance Technical Foundations. New editions of the *Corporate Finance Regulation* and *Corporate Finance Technical Foundations* workbooks and corresponding elearning products (covering exams from 11 April 2013) are due out in March.

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

ONLINE TOOL

Professional Refresher



The CISI's Professional Refresher is a training solution to help you

remain up-to-date with regulatory developments, maintain regulatory compliance and demonstrate continuing learning. This popular online learning tool, now enhanced and updated, allows self-administered refresher testing on a variety of topics, including the latest regulatory changes.

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

Modules are frequently reviewed by practitioners and new topics are added to the suite on a regular basis.

At the end of each module, there is a test that will help you to determine how much knowledge you have gained.

The product currently consists of over 40 modules, including:

- anti-money laundering
- corporate actions
- financial crime
- investment principles & risk
- training & competence
- taxation.

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 Exchange-Traded Derivatives, Commodity Derivatives, Over-The-Counter Derivatives and Corporate Finance Technical Foundations.

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

Diary

Events to attend over the coming months



CPD training courses

Venue: London, unless otherwise stated

13 MARCH Getting to Grips with Operational Risk – For Non-operational Risk Professionals £500

14 MARCH Client Assets & Client Money (CASS)[†] £500

19 MARCH Pensions & Retirement Planning[‡] (Jersey) £500

20 MARCH The Use of Structured Products in Wealth Management[†] £500

21/22 MARCH Derivatives[‡] (Isle of Man) £900

27 MARCH Planning, Delivering and Recording CPD in the RDR World £500

28 MARCH Updated Thinking for Packaged Products[†] £500

4 APRIL Advanced Leadership Skills for Investment Professionals[†] £500

9 APRIL Building a Client-Focused Professional Service for the New World[†] £500

10 APRIL Retail Derivatives (half day)[†] £300

10 APRIL Retail Securities (half day)[†] £300

16 APRIL Financial Crime – How Are You Handling the Hot Topics of 2013?[†] £500

9 MAY Essentials of Supervision £500

21 MAY Practical Guidance on Preventing Insider Dealing and Market Abuse[†] £500

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

19 MARCH AGM plus Regional Roadshow: CPD and Professionalism
East Midlands & Lincoln: Brewin Dolphin, Two Colton Square, Leicester

26 MARCH Considerations in Choosing an Investment Adviser[†]
Jersey: The Royal Yacht, Weighbridge, St Helier, Jersey

9 APRIL Joint Event with STEP: Active vs Passive Debate[†]
Manchester: Manchester Art Gallery, Mosley Street, Manchester

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

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

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

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

27 JUNE Annual Dinner
East Anglia: Norwich Cathedral, Norwich

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

RDR ANNUAL CPD

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

Member and Fellow discounts

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

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

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

Global CPD events

12 MARCH The New Face of UK Regulation

Live webcast with Martin Wheatley, Chief Executive designate, Financial Conduct Authority

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

London CPD events

19 MARCH Financial Reporting Unplugged

Painters Hall, 9 Little Trinity Lane, EC4

9 APRIL Economics to Save our Civilisation

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

15 APRIL Surviving on the Edge of Chaos Between Order and Disorder
CISI, 8 Eastcheap, EC3

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

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

Branch events

13 MARCH Joint Event with UBS: Economic Update[†]

Northern Ireland: University of Ulster, York Street, Belfast

14 MARCH Bank of England Update[†]

Manchester & District: Brewin Dolphin, 1 The Avenue, Spinningfields Square, Manchester

18 MARCH Regional Roadshow: CPD and Professionalism

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

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David Moland,
Chartered FCSI



Elizabeth Hornby
MCSI



Simone Porter
ACSI

The CISI compliance professional forum has prepared new members for the new UK regulatory regime, which comes into force this April.

A panel of practitioners highlighted for attendees the issues they need to focus on as the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) come into being as successors to the FSA. The FCA will oversee conduct and the PRA will concentrate on prudential matters.

Giving their expert views were David Moland, Chartered FCSI, Head of Compliance, Arbuthnot Latham & Co Ltd; Elizabeth Hornby MCSI, Senior Associate, Eukleia Training Ltd; and, Simone Porter ACSI, Managing Director, International Compliance, Charles Schwab UK Ltd. The event took

place at Hogan Lovells in the City of London.

David Moland, Deputy Chairman of the compliance forum, said: "It is important that all practitioners are up to speed with the changes arriving on 1 April and can keep their senior management updated on what these changes will mean in practice."

To book your place at a future compliance forum meeting or to join the 900 members already signed up to its mailing list, please email pfs@cisi.org.

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



LIVERPOOL & NORTH WALES

Pampering session



From left: Paul Bowen (Pictet), Alison Moore, Chartered FCSI, Jennifer Christian and Catherine Morris (Cheviot) and Michaela Rayner, Chartered FCSI (SWIP), enjoy the evening

The CISI's Liverpool & North Wales branch served up a treat for its members and guests by holding a 'pamper' evening.

Treatments offered by a local beauty therapist included a 'Get up and Glow Mini Manicure', 'Totally Heavenly Foot Rub' and 'Indian Head Massage'. All of this was complemented with canapés and drinks.

The event was held at the White Bar at the Radisson Hotel in Liverpool and was supported by Scottish Widows Investment Partnership (SWIP) and Pictet.

Helen Standish, Chartered MCSI, Social Secretary for the branch, said: "We wanted to give our members the perfect platform to ease their way into the new year and to treat themselves to an evening of indulgence."



Carla Jarrett ACSI from Pershing has a manicure

Annual Technology Debate

Are mobile devices and social media a risk to business?

24 April 2013 London 17:30 - 19:00
followed by a drinks reception
cisi.org/events



Membership admissions and upgrades

MCSI

ABN AMRO

Hiren Rawal

ACPI

Richard Ward

Arjent

Gary Schonwald

Ashurst

Yixiang Shao

Bank Leumi

Edward Webster

Bank of America

Sammer Nabi

Barclays

Suwun Cheung

Andrew Crossley

Serena Doshi

Michael Foy

Nisheet Gupta

Andrew Hodson

Chetan Kapadia

Keshav Khanna

Mark Mace

Nicholas Manning

Mona Mohtasseb

Said Nassar

Billy Newton

Olusegun Okubanjo

Matthew Parkin

Marianna Pomazkova

Andrew Powell

Michael Rath

Daniel Revell

Brent Seery

Jonathan Sloan

Bestinvest

Sara Allan

Charlie Lovell

Benjamin Wythe

Louise Yandall

Bloomsbury

Carolyn Gowen

Brewin Dolphin

Michelle Waller

Brooks Macdonald

Michael Toolan

CCLA

Antonia Cavalier

Central Markets

Kenneth Maxwell

CGA

Gideon Adedokun

Charles Stanley

Caroline Craig-Hanson

Cheviot

James McEvoy

David McNiven

Close Brothers

Mark Bray

Corvus

William McEwen

Coutts

Joelle Fielder

Simon Groom

Credit Suisse

Charles Brookes

Ross Malpass

Goncalo Pinto Basto

Richard Warne

Deloitte

Shahrukh Shahzad

Deutsche Bank

Corin George

Christopher Leyland

Neil Wotherspoon

Emirates NBD

Marwa Alani

Equilibrium

Graeme Black

Ernst & Young

Li Kune Lan Pookimlifu

FXCM

Clive Elms

Shruti Shah

Hartmann Capital

Nick Atkinson

HB Markets

George Hope

Nicholas Wiseman

Henderson Rowe

Andrew Gibbs

HSBC

Gareth Harries

Gillian Wakefield

Investec

Sean Feeney

Jonathan Marsden

Jefferies International

Damien Ryan

JLT

Hilary Brown

JM Finn

Bruce Ayling

JN Financial

Spencer Gilbert

J.P. Morgan

Anastasia Dubov

Christopher Harris

Denis Shibiko

JPMorgan Chase

James Drace-Francis

Julius Baer

Edward Capel-Cure

Kedge Capital Fund

Management

Ben Burton

Killik

Michael Berry

Knight Frank

Mukesh Vadgama

KPMG

David Kraushaar

LMAX

Roger Le Dreau

Marlborough

Gurjit Soggi

MaxCap Partners

Ittan Ali

McKinsey & Co

Martino Winckler

Merrill Lynch

David Matta

Veronique Morel

Morgan Stanley

Marlina Espinheiro

Nicholas Viney

Membership admissions and upgrades

MPL Aidan Vaughan National Australia Bank James Kidston Partners Capital Investment Sean Thomas Farrell Ethan Matthew Hall John Hampel Stan Miranda Price Bailey Jeremy McGregor PricewaterhouseCoopers Amarpreet Singh Dhillon Quilter Terry Michael Amish Patel Oliver Stones Rathbone Stephen Hunter Michael Townsend Redmayne-Bentley Josephine King Rossie House Jean Matterson Rowan Dartington Michael Nathan Saltus Partners Simon Armstrong Santander Krzysztof Drenda Sarasin & Partners Nicholas Lambert Selftrade Andrew Pateman Seven Victoria Haselgrove SG Hambros Bank Mayssoun Habra Smith & Williamson Jonathan Davis Spearpoint Jonathan Mynes UBS James Copeland Ekaterina Doubinina Veau Fermin Garcia-Romeu Corel Grinberg Jonathan Menzies James Mulford Hemagini Patel Harry Pope Hamid Jamil Zubairi United Overseas Bank Tzeh Yew Chiam Vestra Wealth Miles Berryman Thomas Catchpole Douglas Spacey Vishon Emanuele Floridaia Hubert Zanier Walker Crips Peter Bennett Clifford Garcka Mark Jordan Stephen Lovelock Fraser Moyes World First Simon Hilton William Wolsey Others Glen Arnett Michael Barney Toby Carpenter Xintong Liu Richard Newhams Jianxin Ni Chika Opara Zhikun Ou Ben Sheridan	Som Toohey Christopher Wigley ACSI 7City Christopher Pennington Abans Global Srinivasan Nadathur Govindrajan ABG Cement Pinaki Chakrabarty Absolute Return Jeremy Smith Abu Dhabi Commercial Bank Sudeep Jain ACPI Meriem Cherkaoui Tanjy Ahli United Bank Stuart Taylor Alexander David Russell Simpson Arena Philip Barker Alexander Hills Arjent Martin Badder Robert DePalo Robert Philip Depalo Joshua Gladtko Marek Koch Gregg Lerman Barclays Adrian Biesty Frances Kinloch Rakesh Sharma Louize Storey Bestinvest Roger Barnes BNP Paribas Paul Barlow Valentina Crovato Thomas Dearsley BPP Louise Undrill Brewin Dolphin Rhiannon Bates Aaron Craig Capital International Mark Gilson Cazenove Thomas Lawrence Central Markets Andrew Blaylock Churchill Christopher Fergusson Citibank Kateryna Vaschenko Clariden Leu Daniel Ellis Collins Stewart Richard Clementi Jonathan Galloway Paul Mann Cornelian Agnieszka Krzeczowska Coutts Dmitri Rozanov Credit Suisse Martin Burke Karen Emanuel Mohamad Hawa Alberto Recchi Raminder Singh DBOI Global Services Kishore Prakash Deutsche Bank Neil Hardman Nitin Khanna Eden Naseer Dean	EFG Hans Knowles Grant Lawson Euri Nastase Myrto Stefanidou Virna Topalian Marios Voskopoullos Fiske Gabriele Leiders Focused Kevin Dixon Founding Asset Management Christopher Davis Groupe Financiere Hottinger Richard Howard Stephanie Ulm Hanson Jeremy Taylor-Firth Hartmann Stephen Grell Nicholas Phillips Hatton National Bank Angelina Dharmaraj HB Markets Freddie Stuart-Baker Henderson Rowe Artur Baluszynski HSBC Alia Nadira Abd Ghaffar Mohd Azhaz Azudin Tengku Hazlin Binti Tengku Mansor Wei Jun Chan Sharon Chew Mun Hoong James Chew Seng Choy Yee Hyoun Chin Wei Ping Chow Ee Lin Chu Jusrup Gill Davindran Nair A/I Hari Krishnan Nair Alan Hills Kew Huey Yu Mohd Adha Bin Kamaruzzaman Jufen Khor Shri Ganesh Kunaratnam Nazatul Syima Binti Lazim Hui Fun Lee Kit Shih Lee Teik Seong Lee Ming Chian Leong Chor Wai Low Ai Khim Lum Hemamalini Magalingam Imran Syazreen Mahat Chet Koon Mok Wen Yi Ooi Sutha Ponnuthurai Alvin Suresh Subramaniam Li San Tan Yen Kai Teh Kai Xuan Teoh Kah Soon Wong Pei Chen Yap Adelina Yeoh Roslan Shankaranathan Yoganathan Wai Sean Yong Rozana Zainal Azman IMS Michael Strug Information Mosaic Niall Sheridan Ingenious Bevan Blair Matthew Dickens Investec Jimmy Muchechetere	IPP David Baldock J Edward Sellaris James Morris JM Wakeling John Wakeling Johngift Consulting Gideon Enemaduku J.P. Morgan Marwa Khalaf-Allah Lewis Jarrett Nigel Breakell LGBCO Andrew Boyle Lloyds Bank Lyndsey Hampson Merrill Lynch James Kane Theo Kiakides Alf Monsen Mid-Day Infomedia Manajit Ghoshal NatWest Gregory Duncan Nomura Suzanne Allen Pretium Nicholas Hambridge Psigma Katherine Stein Quilter Frederick Bennett Kayen Chan Shabbir Gulamali Anubhav Rastogi RC Brown Oliver Brown Glenn Meyer RNS Mittal Rajesh Mittal Rathbone Kate Shepherd Redmayne-Bentley Mark Decker Lisa Ryland Reliance Mediaworks Asha Ghoshal Rowan Dartington Joshua Davis S&O Consulting Saad Shahid Sand Aire Frank Jonuschat Sarasin & Partners Oliver Bates Tracy Collins Paul Cooper Ruadhri Duncan Richard Ellis Melanie Roberts Rupert Tate Savoy Andrew Mansfield SCM Simeon Downes Securities & Exchange Commission D.M.G.R Senevirathana Selftrade Richard Latter SG Hambros Bank Christiane Elsenbach Roger Plummer Shepherd & Wedderburn Malcolm Rust Skye Bank Obafemi Sodimu Spearhead Services K.R. Rajagopalan Standard Bank Patrick Chalmers Ian Gibson	William Groat Jawad Joseph Faisal Jawad Standard Chartered Bank Pantam Ganapati Harihara Prasad Anchalee Hongskupant State Street Adrian Hutchings Rajesh Mohite TATA Consultancy Vijay Ramachandran UBS Tridib Das Maxime Gautier-Niriella Simon Lavers Katie MacRaild Loughlin Magowan Katharine Samuels Union Bancaire Andrew Cook United Beverage Co R.M. 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This list includes membership admissions and upgrades from 10 November to 15 December 2012

Seonaid Mackenzie, Chartered MCSI, is drawing on personal experience to help raise awareness of the issue of self-harm among young people. **Lora Benson** reports

A charitable cause



Seonaid Mackenzie

"TO KNOW EVEN ONE life has breathed easier because you have lived. This is to have succeeded," is the Ralph Waldo Emerson quote to be found on the home page of Seonaid Mackenzie's charity, The Wellness Fund Foundation (TWFF). It sums up her approach to both her work and her philosophy of life.

Since 1998, Seonaid has been a managing partner at Sturgeon Ventures in London, with her focus being on start-ups and regulatory compliance.

Seonaid formed her charity three years ago as a direct result of her history of self-harming as a teenager.

"When I was at boarding school, I, like many girls, lived far from home and self-harm was a way of coping," she says. "I never discussed it with anyone and did not realise it was such a big issue. Princess Diana spoke on television about self-harm and many said it was attention seeking. It was the first time I had heard another person speak with authority and experience of such feelings and I started to study how big an issue it was. The sad thing is that it is rising and today, according to accident and emergency units, one in ten young people aged eight to 18 self-harm. This is alarming as no one speaks about it. So I decided to try and make a difference."

Research into self-harming by the National Lottery Commission and MIND has shown that triggers can include a lack of listening, stress, for example caused by exams, hormonal changes, divorcing parents

and going to boarding school.

One of the charity's missions is to encourage every adult in the UK to take time to listen to a child for 15 minutes a day. She says: "In the busy world in which we live, with two working parents often being the norm, children are simply not heard as regards their sharing of thoughts, feelings and fears.

"I want to quash many misconceptions, particularly that self-harming is a 'girl' thing, as many boys do it too and they are more prone to suicides. It is attention-seeking in this respect and, sadly, it is often kept a secret. I did not tell a soul about my own experiences of self-harming until I was in my 30s and some people never

"One in ten young people aged eight to 18 self-harm... no one speaks about it"



reveal that this is something they have done. It is difficult for people who have no experience of self-harming to understand it – the cutting or pulling of hair, banging of the head against a wall, starving, overeating... all are ways of externalising emotions. A child does not have the emotional maturity to cope with extreme feelings."

Seonaid has some basic, yet important, aims for TWFF: "Of the donations we receive, 50% will go to charities already working with self-harmers and 50% will be allocated to a fund to build an elearning programme, to be delivered free to primary and secondary schools. Our programme, Smart Love, aims to teach parents and teachers what self-harm is and how to recognise it and to teach coping mechanisms to children from the age of five.

"As a first initiative, we asked people to wear orange, the charity's colour, on 1 March – which is Global Self-Harm Awareness Day – this year as a sign of support. We are aiming to raise enough funding for the counselling service ChildLine to have support 24/7 for self-harmers to have a person to speak to, who will not judge but will listen. Many child self-harmers become adult alcoholics and drug addicts, with substance abuse replacing self-harming as a way of coping."

In January, Seonaid was granted Freedom of the City of London as a member of the Worshipful Company of International Bankers.

She says: "I very much enjoy being a member of the Guild. The City of London livery companies do a huge amount of charitable work. As a Freeman, I have the ancient right to drive sheep across London Bridge. As a charity we are hoping to do just that with some sheep dyed orange once we can get permission to close the bridge. This will symbolise the lost children, as sheep, coming home to London, where people will be there to listen to them and where they will be heard."

Seonaid's dynamism has seen her honoured in the 2013 Enterprising Women of the Year Awards. The awards are run by *Enterprising Women*, a US magazine for female business owners. ■

For further information, visit twff.eu

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

Seonaid with colleagues from Sturgeon Ventures



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