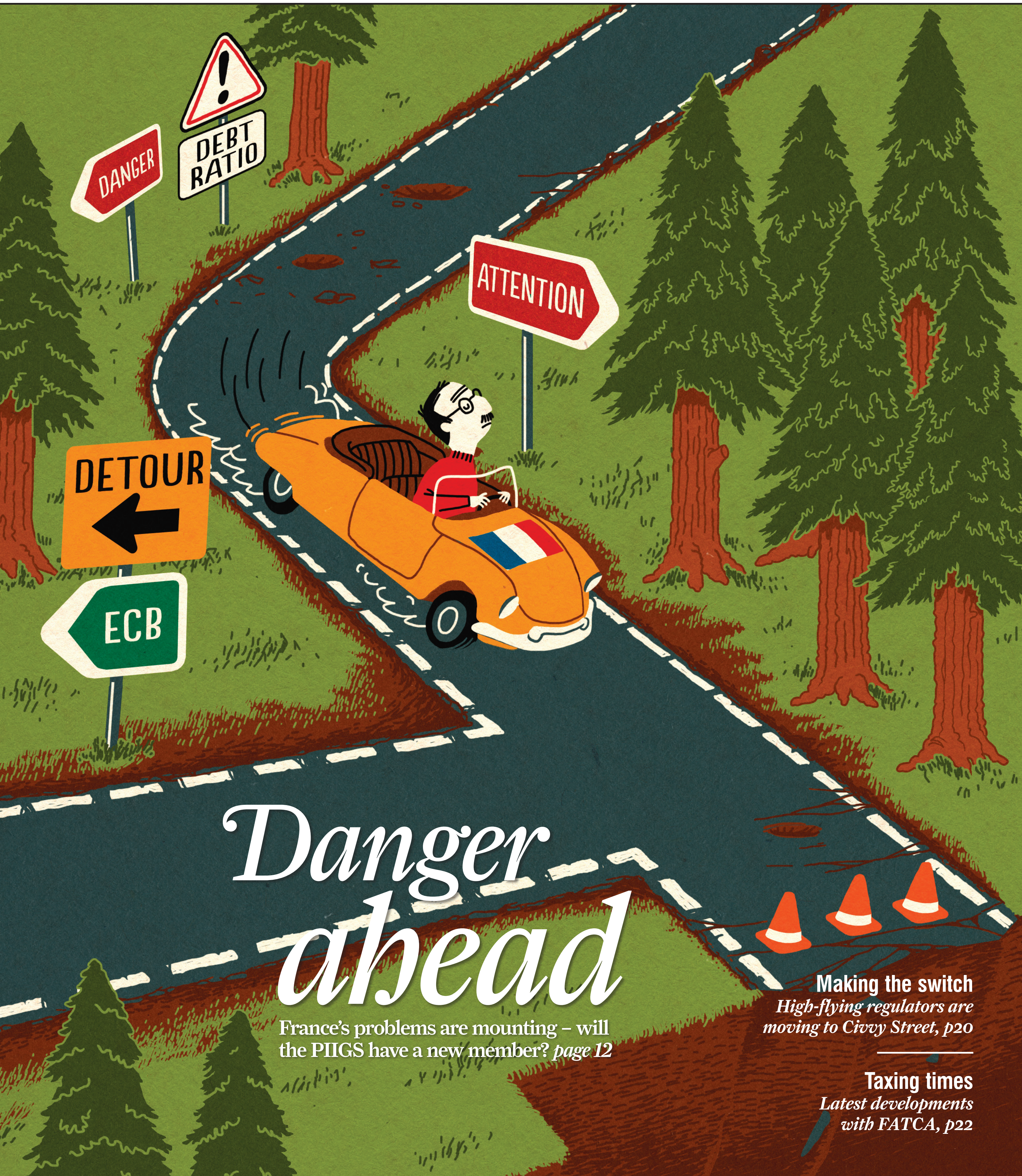
SECURITIES & INVESTMENT
OCTOBER 2013

REVIEW

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



Danger ahead

France's problems are mounting – will the PIIGS have a new member? *page 12*

Making the switch
High-flying regulators are moving to Civvy Street, p20

Taxing times
Latest developments with FATCA, p22

BREWIN DOLPHIN

Brewin Dolphin Is Growing In Chester

Experienced Investment Manager Required

We are currently recruiting for an experienced Investment Manager to join the team in our Chester office.

Established in 1762, Brewin Dolphin is one of the UK's largest independently-owned private client wealth managers. We have been offering bespoke advice to private clients, pension funds and charities for generations, with over £28 billion of funds under management.

We are committed to providing comprehensive financial advice and investment management services for private clients, pension funds, trusts and charities. We employ around 1900 staff in our network of 35 offices across the UK.

The successful candidate will have excellent client communication and analytical skills, an in-depth understanding of financial markets/ risk management and regulatory requirements. The successful candidate would be supported in growing their existing funds under management.

Candidates should hold the Investment Advice Diploma or equivalent, and either the CISI's Full Diploma or Masters in Wealth Management.

A competitive salary and range of benefits are available to the candidate with relevant experience and the necessary motivation and enthusiasm.

For further information and to apply by sending your CV, email **nicola.haughney-carr@brewin.co.uk** or post to **Liverpool House, Lower Bridge Street, Chester CH1 1RS**.

The closing date is 31 October 2013. Please note we are unable to sponsor a work permit application.

Newly Qualified Investment Manager Required

We are currently recruiting for a talented individual to join the team in our Chester office as an Investment Manager.

Brewin Dolphin is one of the UK's largest independently-owned private client wealth managers. We have been offering bespoke advice to private clients, pension funds and charities for generations, with over £28 billion of funds under management.

Candidates should ideally already hold the relevant industry qualifications and be a CF30 as well as having the ability to communicate clearly and professionally, along with the drive and ambition to succeed in a dynamic and fast moving environment.

For further information and to apply by sending your CV, email **nicola.haughney-carr@brewin.co.uk** or post to **Liverpool House, Lower Bridge Street, Chester CH1 1RS.**

The closing date is 31 October 2013. Please note we are unable to sponsor a work permit application.

REVIEW

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Published on behalf of the
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www.wardour.co.uk
ISSN: 1357-7069

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Contents

Time for Change?

Are you a qualified retail investment adviser with a transferable client base?
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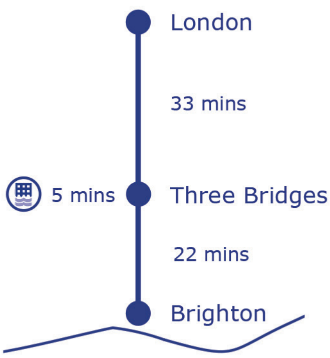


Dowgate has been in business for over 22 years. We completed a management buy out in 2011 and are looking for new investment advisers to join us. We offer a traditional stockbroking service mainly to private clients. In addition, we provide corporate broking services to smaller companies on the AiM market and can provide private client access to new issues led by us or other brokers.

CISI OPINION

The controversy surrounding Bumi and ENRC – and the impact on investors – poses a question about the efficacy of the London Stock Exchange

Notes on a SCANDAL

WHEN KEN OLISA OBE was forced off the board of Eurasian Natural Resources Company (ENRC), the Kazakh-based but FTSE 100 listed mining company, in 2011 he summed up his experience of its corporate governance in pithy and memorable terms: "more Soviet than City".

ENRC's three founding oligarchs are taking the company private once again – in part, perhaps, to escape the attention that their Main Market listing now ensures. The Serious Fraud Office has opened an investigation into certain transactions between the company and related parties. And having listed in 2008 with a capitalisation of £6.8bn that quickly propelled it into the FTSE 100, ENRC will end its career on the London Stock Exchange capitalised at less than half that figure.

This has undoubtedly been one of the least happy experiences to befall the London Stock Exchange and the UK Listing Authority (UKLA) for many years, but it has not been unique. Bumi, the London-listed coal miner with operations in Indonesia, has suffered similar ignominy, its shares having sunk well below their listing price and having been suspended after alleged financial irregularities emerged.

In both cases, corporate governance standards have been found wanting and the cost to investors who bought shares in these issues has been considerable.

"So what?" you might say. Investing institutions are sophisticated buyers who should be quite capable of giving poor quality issues a wide berth. It's true that *caveat emptor* (buyer beware) remains an important principle but cases like these suggest that if this is the only protection investors can rely upon many will suffer and individual savers will be heavily represented among them.

Several times in recent years, listings that subsequently proved controversial were only able to go ahead after the UKLA relaxed its own rules to enable a free float of less than 25%. In a competitive market where demutualised exchanges are under pressure to attract large listings that will maintain their international standing, it is hardly surprising that exchange authorities do all they believe they reasonably can to win high-profile listings. But in some instances they appear to have gone too far.

In the case of ENRC, the UKLA's concerns were allayed after the three dominant shareholders signed a 'relationship agreement' with the company to ensure its independence. But that proved temporary. High-profile non-executives, including Mr Olisa and Sir Richard Sykes, were ousted after falling out with the company's major shareholders and with them went any chance of the board remaining credibly independent.

Investors are exposed to companies where governance falls short

The problem is that if the listing rules are selectively eased and institutional investors can then credibly rely on that decision to justify their own purchases, other consequences follow to the detriment of individual investors.

First, any issue that becomes part of a major index such as the FTSE 100 will almost, of necessity, tend to figure in many actively managed funds to a greater or lesser extent. Any fund that takes a major index as its benchmark will, in practice, tend to stick quite closely to the composition of that index in order to minimise the manager's risk of serious short-term underperformance. This 'closet indexing' is well known and results in investors being unwittingly exposed to companies where governance falls well short of what they might reasonably expect.

Second, now that ever-increasing sums are flowing into passive vehicles that track benchmark indices, any company that figures in the index must necessarily be owned by the tracker fund. This simply makes explicit the less obvious threat from closet indexing – that investors who choose to track the FTSE 100 in recent years have had no choice but to own shares in ENRC, for example.

When it's hard in practice not to buy the index, the importance of making sure only the best companies are allowed into it takes on even greater importance. Therefore, moves by the UKLA and leading institutional investors to further tighten the listing regime in London are to be welcomed.

Companies want to list their shares in London because it has a hard-earned reputation as a well-managed and well-regulated market, and this reputation lends credibility to the companies that are traded on the exchange.

Investors have long since accepted that the FTSE 100 does not simply represent the largest corporate names in the UK economy. It is one of the world's most cosmopolitan markets and this is an undoubted gain to UK investors. But it will only remain a net positive if the rules that govern admission are rigorous and are rigorously applied. In recent years this has not always been the case. ■

Upfront News and views from the CISI

DINNER AND AWARDS

Honours for top professionals

Eleven financial services specialists have been honoured as Scotland's top performers in CISI exams.

They were recognised at the Annual Dinner and Awards of the Institute's Scotland branch, which took place at the George Hotel, Edinburgh. Candidates in Scotland sat more than 1,900 exams last year.

The evening was attended by more than 170 guests and featured as guest speaker Sir Ranulph Fiennes OBE, arguably the world's greatest living explorer.

Speeches were also given by Stephen Barclay, Chartered MCSI, President of the Scotland branch and Kevin Moore, Chartered MCSI, the CISI's Director of Global Business Development.

A collection was held in aid of Action for Children Scotland, which supports vulnerable and neglected young people, and raised nearly £1,900 for the charity. With the addition of Gift Aid, this figure will increase to more than £2,200.

The evening was sponsored by BlackRock, Change Recruitment Group and Invesco Perpetual.

Back row, from left: Guest speaker Sir Ranulph Fiennes with award winners Vicki Linton MCSI, Joseph Burns MCSI, Caroline Hughes-Hunn MCSI and Guido Biocchi MCSI. Front row, from left: Award winners Gordon Lindsay, Adam Samson ACSI, Marlina Espinheiro MCSI and David Bryce with Kevin Moore, Chartered MCSI, CISI Director of Global Business Development

Award winners

CISI Masters in Wealth Management Award: Joseph Burns MCSI, Quilter Cheviot

CISI Diploma Award: Vicki Linton MCSI, Spiers & Jeffrey

Diploma in Investment Operations Award: Marlina Espinheiro MCSI, Morgan Stanley

Diploma in Investment Compliance Award: Caroline Hughes-Hunn MCSI, Baillie Gifford

Private Client Investment Advice & Management Award: Guido Bicocchi MCSI, McInroy & Wood

Advanced Operational Risk Award: Simon Thomson ACSI, Barclays

Advanced Global Securities Operations Award: David Bryce, NatWest TDS

Certificate in Investments Award: Davinder Dhadday, Royal Bank of Scotland

Investment Operations Certificate Award: Gordon Lindsay, Walter Scott & Partners; Adam Samson ACSI, Morgan Stanley

Introduction to Securities & Investment Award: Sonia Tarczalowicz, Morgan Stanley

SURVEY

Customers still mistrust banks

A lack of customer confidence is the biggest challenge facing the banking sector, according to a survey carried out by the CISI, five years after the collapse of Lehman Brothers.

Of nearly 650 respondents to the survey, 52% pointed to a low level of confidence in banks being the number one stumbling block to their continued recovery.

A further 24% of those taking part said over regulation was the key issue for the industry followed by insufficient controls (13%) and shortage of capital (11%).

"Trust is the principal challenge," remarked one contributor. Another said: "Banks are still looking for ways to profit at the expense of people who use their services and then complain when what should be classed as malpractice is restricted."

But others have argued that banks were too constrained in the post-crisis era.

"After Lehman's collapse, all regulation bodies have been more tough on banks, which is getting in the way of trading," said one respondent. Other comments included that banks were deterred from offering new products as they were "too scared of the potential damage" that might result "rightly or wrongly" from regulatory intervention.

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

MIDDLE EAST

Education in Palestine

Maher Masri

The CISI has jointly created the first ever entry-level qualification to underpin the development of capital markets in Palestine.

In partnership with the Palestine Capital Market Authority (PCMA), the Institute has developed the Palestine Securities Sector Rules and Regulations Qualification. The first exam sitting took place in Ramallah last month.

The PCMA has worked with the CISI since 2009 to educate professionals in the financial sector. This has resulted in significant numbers of candidates taking the CISI's International Introduction to Investment while the new qualification was under development.

Maher Masri, PCMA Chairman, said: "The PCMA takes pride in being one of the first capital markets in the Arab region to apply this qualifying exam in partnership with the CISI; PCMA views this step as a clear manifestation of its resolve to upgrade the quality standards of practitioners in the securities sector."

CISI Managing Director Ruth Martin said: "The CISI has been privileged to be selected as the global partner with the PCMA in the development of its local regulatory exam, Palestine Securities Sector Rules and Regulations. By having well-qualified practitioners, the PCMA has proactively demonstrated its commitment to raising standards in the markets and preparing the way for those practitioners to be highly regarded."

13.7%

The proportion of France's GDP that is spent on pensions. This is about 6% of GDP higher than the average for countries of the Organisation for Economic Co-operation and Development. For more on France, see page 12

QUALIFICATIONS

Update to Certificate in Investments Programme

The CISI has changed the name of its key wholesale market qualification.

The CISI Certificate in Investments Programme will now be known as the CISI Capital Markets Programme (CMP).

The CMP is comprised of a regulatory unit, completed successfully by passing a one-hour multiple choice exam and at least one technical unit: Securities and/or a range of Derivatives exams.

The programme is designed to meet the requirements of individuals working in the wholesale securities and derivatives markets, both in the UK and internationally. The qualification is accredited by the education regulator Ofqual as a level 3 and on the European Qualifications Framework this equates to a level 4. Students can choose to self-study for the exam using CISI learning manuals or have formal training at one of the CISI's accredited training providers.

CISI Managing Director Ruth Martin said: "There are more CISI exams taken by candidates working, or aspiring to work, in the wholesale sector than in any other part of our sector and the exams we offer in the Capital Markets programme have been developed and are reviewed by capital markets experts. The rebranding to the Capital Markets Programme underpins our commitment to this sector."

As reported below, to increase candidates' ethical awareness, since April this year the CISI has also introduced the requirement that UK exam candidates taking CMP exams must have obtained a grade A or B pass in its online ethics test, IntegrityMatters, before sitting the exam.

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

ETHICS

New markets for IntegrityMatters

The CISI has announced plans to extend IntegrityMatters, its mandatory online ethics workshop and test, to candidates in Ireland, Europe and North America, with effect from 1 February 2014.

This follows the introduction in April of the requirement for all UK customer-facing, wholesale/capital markets candidates to complete and pass IntegrityMatters before sitting CISI entry-level exams.

More than 10,000 candidates have now completed IntegrityMatters, a multiple stage scenario-based test for which the results are immediately available.

CISI Chief Executive Simon Culhane, Chartered FCSI said: "We are pleased to be introducing the IntegrityMatters test to Ireland, Europe and North America as it means that new entrants to the capital markets sector in these jurisdictions, who will be working directly with firms and clients, realise the importance of integrity and ethics from the moment they enter the industry and they appreciate that integrity comes before profitability."

As in the UK, the broadening of IntegrityMatters to new markets is also designed to ensure integrity is tested across the entire industry, not just in wealth management and retail financial advice.

Bernard Sheridan, Director of Consumer Protection at the Central Bank of Ireland, which regulates the country's financial services, said: "We welcome any initiative which helps people to focus on integrity which can help to shape a positive customer-focused culture."

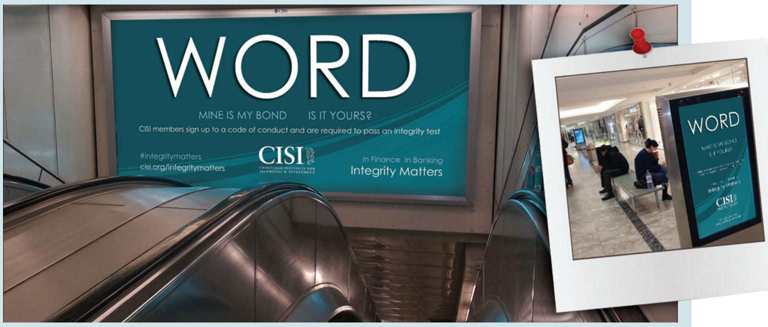
In its drive to develop and promote high ethical standards for practitioners the CISI has been presenting its IntegrityMatters seminar since 2008 to firms and universities both in the UK and in countries including Hong Kong, Singapore, Kenya, India and South Africa.

Its annual Integrity Debate, held on 25 September, addressed the question 'UK Wealth Management – honest, open, transparent and fair?' The debate featured as speakers Andrew Fisher, Chief Executive, Towry; John Authers, Senior Investment Columnist, *Financial Times*; Jeremy Marshall, Chief Executive, C. Hoare & Co. and Gina Miller, founder of SCM Private and the True & Fair Campaign.

To find out more about IntegrityMatters, see *cisi.org/integritymatters*
Footage from the Integrity Debate can be viewed on CISI TV at *cisi.org/tv*

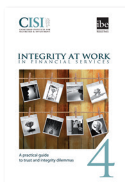
To support the second phase of its IntegrityMatters initiative, the CISI is running an advertising campaign in tube stations at Bank and Canary Wharf in London, plus rail stations in Leeds, Edinburgh, Birmingham and Dublin.

The campaign is based on the CISI's motto, 'My word is my bond'.



PUBLICATIONS

CISI launches new integrity book



This month sees an expanded distribution of the *Securities & Investment Review* with copies being delivered to all UK-based members, including students, in addition to regular recipients of the magazine.

The reason for this is that included with the October issue is a copy of the CISI's new publication *Integrity at Work in Financial Services*, volume 4. This was formally launched by CISI Chairman Alderman Alan Yarrow, Chartered FCSI(Hon) at the CISI Annual Integrity Debate on 25 September.

As with previous volumes, this edition comprises a compilation of Grey Matters articles from the *S&IR* over the past two years, presented in the format of the previous volumes, including indicating the CISI's preferred response to each dilemma.

The publication of this book and its use, together with the companion volumes 1, 2 and 3, provide an important tool in the provision to members of products and services that reinforce the behavioural strand of professionalism, which is, itself, a key criterion and benefit of membership of the Institute.

View the book online at *cisi.org/ethicaldilemmas*

CAREER DEVELOPMENT

Support for young people joining financial services

ProfessionsWeek

21-27 October 2013

professionsweek.org

A group of the UK's most prominent professional bodies, including the CISI, is supporting the UK's inaugural Professions Week.

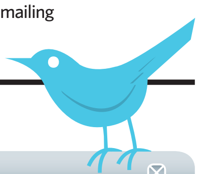
Running from 21 to 27 October 2013, the week will aim to increase interest and awareness among 14–19 year olds in the professions. It will also support teachers and careers advisers, giving them the relevant materials to help young people make informed decisions about entering the professions.

CISI Managing Director Ruth Martin said: "We are delighted to be involved with this excellent initiative and to be supporting the promotion of the professions to young people. High university fees and a competitive job market mean it is more important than ever before for relevant and realistic careers advice to be given from a young age, and for individuals to understand the competitive edge that aligning themselves with a professional body can give them."

Once Professions Week is over, the CISI will be continuing with its efforts to promote the field of securities and investment to young people, which includes offering:

- qualifications in schools and colleges which carry UCAS points
- qualifications which can be taken as part of an apprenticeship
- work experience opportunities through the Institute's Investing in Futures initiative
- careers presentations
- *#yourmoney*, a book on personal finance aimed at 16–25 year olds.

Find out how you can get involved with the CISI's educational initiatives by emailing *educationdevelopment@cisi.org*



ONLINE

BEST OF THE BLOGS

1 tinyurl.com/lehman-skirts

The collapse five years ago of Lehman Brothers was not the first time the investment bank had faced trouble, according to the Opinionator blog of the *New York Times*. Founded in 1850 as a small brokerage firm by German immigrants Henry, Emmanuel and Mayer Lehman in Montgomery, Alabama, the blog recounts the tale of how, during the American civil war, the firm was saved by gold smuggled under the skirt of Mrs. John Wesley Durr.

2 tinyurl.com/lehman-where

What is former Lehman CEO Richard 'Gorilla' Fuld doing nowadays? The Center for Public Integrity has the answer, and it seems Fuld has set up a consulting firm called Matrix Advisors, which specialises in mergers and acquisitions. On the other hand Jimmy Cayne, former CEO of Bear Stearns, has become a serious bridge player, competing in tournaments in both the real and the virtual worlds. He has reached an international ranking of 22.

3 tinyurl.com/lehman-lessons

What has the collapse of Lehman Brothers taught the financial world? A blog on the website of *FXTimes* lists ten lessons that investors and the industry should have learned during the intervening years. Chief in the irreverent list is that 'bank executives lie'. It cites the conference call Lehman CEO Richard Fuld had with investors, days before Lehman collapsed, in which he reportedly said to shareholders that "no new capital was needed" and that "real estate and investments were properly valued".

See page 14 for more on the fallout of the Lehman Brothers collapse.

Do you have a blog recommendation?

Send it to the Editor:

rob.haynes@wardour.co.uk

MEMBERSHIP

Disciplinary Panel: Would you like to be involved?

The CISI has an established disciplinary process to consider infractions by members of its membership regulations and code of conduct. This involves the participation of volunteer members and lay (non-CISI) members at disciplinary hearings.

Although the number of disciplinary hearings has been small, the CISI needs to ensure that the panel contains sufficient volunteers to enable hearings to take place in a timely manner.

If you would like to volunteer to join the panel, please send your name and contact details to *andrew.hall@cisi.org*. Training is given to all panel members.

SELECT BENEFITS

Where to find a venue

the venue team free venue finding

Are you looking for the perfect place to hold this year's office Christmas party? Or maybe you need a venue for that all-important business meeting? Through CISI Select Benefits, members have access to The Venue Team, one of the UK's leading free venue-finding companies. It can arrange anything from one-to-one meetings to dinner dances for more than 1,000 delegates.

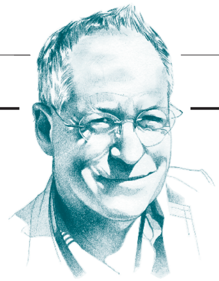
To take advantage of this offer, call *08445 007 138* and quote CISI VENUES or visit CISI Select Benefits via *cisi.org/memberlogin*

Terms and conditions apply. See website for details. Offer subject to change without notice.

EDUCATION

CISI in Russia

CISI Senior Adviser Sian Lloyd, Chartered FCSI and Head of Educational Development Alex Cannon flew the flag for the Institute at a UK–Russia video conference. The team highlighted career opportunities for students of the Financial University in Moscow and its branches across the Russian Federation. Presentations were made by the London Stock Exchange and the Institute of Certified Bookkeepers, among others, as part of the Day of Financier celebrations in Russia.



CLAY '*MUDLARK*' HARRIS

John Robinson MCSI ACA, Director, Forensic and Litigation Consulting, FTI Consulting

John Robinson MCSI might as well have had his name put down at birth for his career as a forensic accountant.

"I was always a 'but why?' sort of a child," says John, a London-based director in FTI Consulting's Forensic and Litigation Consulting practice.

That insistent curiosity, plus his lifelong love affair with mathematics, combine perfectly in forensic accounting, the investigation and analysis of financial information for use in legal proceedings.

John's career illustrates, moreover, the important contribution that CISI qualifications can make in jobs that might not be considered a part of mainstream financial services. Even a failed exam can teach a lesson.

John grew up in the West Yorkshire village of Denby Dale, famous for the giant pies it bakes on special occasions.

"As the youngest of three ginger-haired boys, I soon realised that being good at maths was a way to stand out from my brothers and the other children. In a village, however, anyone like that was likely to run the risk of being mocked. Maths was the reason I started playing football. That was the way to get in with the cool kids."

But maths was also the reason he stopped taking football seriously: "I knew the odds of a career-threatening injury were much greater in football than in mathematics." John's concentration paid off. He achieved A marks in his maths, further maths and physics A Levels.

John didn't want to go to university in a city and chose Warwick, in part because of its campus setting.

"I always said, 'I'll never do accounting and I'll never move to London'," he recalls, but a university friend, who finished a year before him, alerted him to Forensic Accounting LLP, a specialist firm that had been set up to avoid the conflicts of interest inherent in being part of an audit firm.

He qualified as an accountant at Forensic Accounting, which was acquired by FTI Consulting in 2008, and has worked there since.

> "I always said, 'I'll never do accounting and I'll never move to London'"

About half of his time has been spent on secondments to regulators and government agencies. One of the first was to the Department for Business, Innovation and Skills to conduct Section 447 investigations into suspected corporate financial misconduct. This enabled him to gain experience in managing entire investigations.

In the 22 months of his secondment to the FSA, he had discrete responsibilities as part of the FSA's largest investigation into an alleged insider dealing syndicate. He also spent seven months at the Serious Fraud Office.

At FTI Consulting, John has worked on asset-tracing projects, including managing a London team working for the liquidators of Bernie Madoff's $65bn Ponzi scheme. During another assignment, in Kazakhstan investigating a local misappropriation of assets, John says: "I realised I wanted to specialise more in the financial side of investigations."

He turned to the CISI since its qualifications were the most widely respected in the industry.

John got his Diploma, getting the required qualifications in Regulation & Compliance, Interpretation of Financial Statements and Bonds & Fixed Interest Markets. For the first and only time in his education and his career, however, he failed an exam – the Financial Derivatives module – proving, if anyone doubted it, that CISI exams are no doddle.

He pleads in mitigation that he prepared for the exam in his own time while carrying a full load of work. Still, it was a healthy reminder of fallibility to someone who, when younger, annoyed fellow students after exams by saying confidently, "I think that went well."

He intends to take the exam again some day, and the knowledge it covers remains useful to his job. "That's the only one of the textbooks that I still have on my desk, and I refer to it regularly."

John Robinson MCSI

Director, Forensic and Litigation Consulting, FTI Consulting

Do you have a back-office story?

mudlarklives@hotmail.co.uk

Illustration: Luke Wilson

ACADEMIC

Call for research papers

Moorad Choudhry FCSI

CISI members are being invited to contribute to a new quarterly academic journal that will be published in the *S&IR*.

The journal will feature blind-peer-reviewed papers related to wealth management, capital markets and banking.

Members can submit to the CISI for consideration original papers of between 1,500 and 3,000 words in length, accompanied by an abstract of 80 to 150 words.

All papers put forward will be refereed by the journal editorial panel, comprising practitioners and academics, or its recommended reviewers.

Professor Moorad Choudhry FCSI, Editor of the journal, said: "Our vision is for this journal to establish itself as the research publication for the securities and investment industry, regarded at the level of peer-reviewed titles such as the *Journal of Finance*.

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

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

ACIIA

Good news for retail advisers

The CISI is offering a new membership and qualification deal for members of the Association of Certified International Investment Analysts (ACIIA) who are looking to give retail investment advice in the UK.

It means that holders of the ACIIA's CIIA Qualification can gain authorisation as retail investment advisers in Securities and/or Derivatives from the Financial Conduct Authority (FCA).

The FCA has agreed that the CIIA Qualification fully meets the current exam standards in respect of Securities or Derivatives.

In order for CIIA Qualification holders to become eligible to apply for FCA authorisation as retail advisers in Securities and/or Derivatives, they must study and pass two CISI Investment Advice Diploma units, Investment, Risk and Taxation and UK Regulation and Professional Integrity.

Under the agreement, ACIIA members who hold the CIIA qualification can apply for membership of the CISI and are able to apply for an annual Statement of Professional Standing from the Institute, a prerequisite for all retail investment advisers under the RDR rules.

Dr Yixiang Lin, ACIIA Chairman said: "For our CIIA qualification holders this arrangement provides an enormous value added by opening doors to the UK market."

Ask the experts...

Carl Astorri
Senior Economic Adviser, EY

WHAT IS ESCAPE VELOCITY?

'Escape velocity' is not a traditional economic term, but has been used by Bank of England Governor Mark Carney to communicate in a familiar way about the economy directly with members of the public and businesses. People will be familiar with the idea that when you shoot a rocket into space it needs to accelerate to a certain speed to escape the earth's gravity, and Carney has used this phrase to apply to economics. The idea is that to be confident that an economy has pulled out of recession, you need to have a decent pace of growth.

The question then becomes, what is that decent pace? And the answer to that question depends on what has happened before. During the most recent downturn, the UK has generated a lot of spare capacity in the economy, and we need to see a sustained period of economic growth to be confident that we will eat into this capacity, which crucially means lowering unemployment.

For the UK, that spare capacity amounts to around 6% of gross domestic product (GDP), which is an imbalance that has been caused by the 1.5% growth of potential GDP and very low growth of real GDP. So an escape velocity figure of at least 2% is needed over a sustained period to diminish that spare capacity, most notably unemployment. For the wider public to feel that the economy is recovering, they need to see employment growth and income growth. An economy that has reached escape velocity will therefore help that to happen and is likely to start in 2014.

Escape velocity growth will also help protect the economy from external shocks. The UK has been bumping along the bottom in terms of growth since the end of the recession in late 2009, and we have experienced external shocks – the crisis in the eurozone, for instance – that have threatened the UK's recovery. Part of the reason the UK has failed to reach escape velocity is a series of 'headwinds' in the form of deleveraging in the financial, household and public sectors. These obstacles mean that external shocks – for instance, problems with a big trading partner, further financial shocks and oil price spikes – would threaten economic growth altogether.

At a general level, the term 'escape velocity' is an example of Carney trying to communicate directly with households and companies to instil confidence in his position at the Bank of England and the economy, and give comfort that interest rates will stay low so as to stimulate investment and borrowing. In this respect it is no coincidence that his first major speech was held not in London, but Nottingham, and addressed business leaders rather than financial services professionals. The markets have not been that convinced by Carney's promise to keep interest rates low (in fact, forward interest rate rises have gone up) but his audience in Nottingham seemed to have taken the message that interest rates will not be raised any time soon.

Essentially, Carney has been trying to get round financial markets and talk to businesses in a language they understand. This was part of his style as Governor of the Bank of Canada and I would expect him to continue this during his tenure at the Bank of England.

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

QUALIFICATIONS

New schools course

Nick Seaward, Chartered FCSI

The CISI has announced that, from September 2014, schools will be able to offer the Certificate in Fundamentals of Business and Finance to students at key stage 4, which is for 14–16 year olds.

The education regulator Ofqual has approved the qualification, a first for the target age group.

The qualification includes an introduction to business ethics and also provides an important link to personal financial management through its topic on planning for the future.

CISI Managing Director Ruth Martin said: "We believe that professional bodies, skilled in understanding the needs of those who may one day wish to work in the sector, are ideally placed to offer relevant, high quality qualifications tailored especially to secondary school age pupils.

"In an increasingly challenging economic environment, there are pupils who want to be able to study a qualification that will help prepare them for further studies, whether at 'A' level or in apprenticeships and this is for them."

Nick Seaward, Chartered FCSI, a teacher of Business Studies, Economics and Finance at Kemnal Technology College, Sidcup said: "Secondary schools will at last be able to offer a Level Two course which covers the key elements of Business Studies, Economics and Personal Financial Capability. It will be an excellent stepping stone to the CISI's Level Three Diploma in Finance, Risk and Investment, which we have just started teaching here at Kemnal."

In addition, the CISI has, thanks to its Educational Trust, been able to recruit a qualified teacher to help support schools. The Trust sponsors the development of teacher materials providing mentoring support at no additional cost to schools.

QUICK QUIZ

Test your industry knowledge

Illustration: Cameron Law

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

☛ Answers are on page 29.

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

Q1. What is the generic term for an off-exchange agreement to trade an asset between two parties at a fixed date and price?
A) Credit spread B) Forward C) Future D) Derivative position

Q2. What is the name of the process where registered trades are cancelled with the clearing members and substituted by two new ones?
A) Novation B) Assignment C) Dual Account Facility D) Principal-to-principal

Q3. In which ONE of the following types of derivative products is a debt instrument the underlying asset to be hedged?
A) Interest rate futures B) Currency futures C) Stock index futures D) Share futures

Q4. Which ONE of the following stages of money laundering would occur where the proceeds of criminal activity are separated from their source?
A) Concealing B) Integration C) Layering D) Placement

Bouncing back

The global recovery is under way, and good economic news is starting to match market sentiment. The story for the eurozone, however, is a little more complex...

AMERICA'S BACK, BRITAIN'S back, China is stabilising... even the eurozone is showing signs of recovery. What's not to like?

Yes, the world remains burdened by huge levels of public and private debt. Yes, there's little real evidence that we've learned the lessons from the Lehman financial collapse. Yes, unemployment is still at or near record levels in parts of the eurozone.

What's changed is the pace of economic recovery. The US rebound is quickening: activity in the dominant services sector is at its highest since 2005. The eurozone, while fragile, has emerged from recession. And, in Britain, the National Institute of Economic and Social Research estimates the economy grew at its fastest in more than three years in the three months to August. Indeed, Citigroup has raised its forecast for UK economic growth next year to 2.1%.

Leave aside for one moment the debate over whether the prospect of higher interest rates – as the Federal Reserve starts to withdraw monetary stimulus – could slow recovery by removing the prop of cheap money. Equity markets, at a fundamental level, are driven by expectations of company profits and the relative risk of investing in other assets. And there is scope for further gains.

Stocks have already had a stellar 2013. I said it would be a good year for equities, but I didn't anticipate the scale of the gains. New York's benchmark S&P 500 is up more than 15%. Now, as Goldman Sachs puts it, the case for another leg to the rally lies in the prospects for growth rather than hope.

If some of the stock market's gains have been down to relief that the world has emerged from the global financial maelstrom of 2008–09, and passed through the worst of the eurozone sovereign debt crisis, then it is now moving into a different phase.

The period of hope-led gains began in July 2012, when Mario Draghi, European Central Bank president, pledged to do "whatever it takes" to ensure the eurozone's integrity. That proved a turning point for confidence. Mr Draghi has not had to follow through on his promise, at least not yet, and markets have not looked back.

The gains were driven by cheap-looking valuations. The so-called equity risk premium had become too big, implying declines in growth and returns that were simply unrealistic.

In other words, stocks looked an attractive buy compared with traditionally safe assets such as government bonds, where yields had fallen to historic lows.

According to Goldman, that equity risk premium will continue to fall. As that happens, companies are likely to reduce their holdings of cash and increase returns for shareholders, at first via share buy-backs (already under way in the US) and bigger dividends, and then through mergers and acquisitions. All this should be positive for equity investors.

But it is growth – or the strength of the global economic recovery – that will power the next phase of the bull market, the bank believes. People will pay even closer attention to company earnings, in particular outside America, where profitability has recovered strongly, sending earnings above their 2007 peak by the end of 2011. As the US gathers momentum, Asia and Europe will benefit.

> "It could take five years for eurozone profitability to return to normal rates"

This is not going to happen swiftly. It could take up to five years for eurozone-wide profitability to return to normal rates. For that to happen, households and businesses will need to be on a much stronger footing. As such, further gains in equities are unlikely to be dramatic.

Yet, by more than one measure (be it price to book value or trailing price to earnings ratio), Europe as a whole looks too heavily discounted. As the rally in risky assets has lifted all boats this year, US stocks have significantly outpaced gains on the other side of the Atlantic. That could be about to change. ■

Christopher Adams is the Financial Times' *markets editor*

The markets are yet to price in France's deep economic problems. **Chris Alkan** asks if this is about to change

Road to nowhere

THERE IS ONE unofficial club within Europe to which no nation wishes to belong. Economists coined the term PIIGS – Portugal, Ireland, Italy, Greece and Spain – to refer to eurozone countries plagued by excessive debt and uncompetitive export sectors. Now some economists fear this group could be about to get a new member.

"France now has more in common with these European laggards than more successful neighbours like Germany," says Charles Gave, Founding Partner of GK Research. "In fact France is heading towards the kind of economic crisis that afflicted the PIIGS. The nation is also doing nothing to fix its problems."

At first glance such claims seem alarmist. If anything, the French have had some cause to pop open the champagne. Between April and June 2013 its economy grew by 0.5%, enough to kindle optimism that the country was on the path to recovery. And in September 2013 the Organisation for Economic Co-operation and Development (OECD), a rich nation club, boosted its full-year growth forecast for France to 0.3% – hardly a triumph, but certainly better than the 0.3% contraction it had been expecting several months previously.

Deep-rooted problems

So why is there such concern? For a start, recent signs of revival may be partly illusory. Unseasonably cold weather during the spring boosted spending on heating. Companies have also been buying more goods to replenish depleted inventories. Since both factors have probably run their course, the next batch of economic figures is likely to be more sobering. Surveys of business sentiment – often a reliable guide to economic performance – are pointing ominously southwards. Recent purchasing managers' reports suggest that France's economy may actually shrink by 1% over the coming year.

France has far bigger worries than a temporary slowing of economic growth

Sadly, France has far bigger worries than just a temporary slowing of economic growth. "France has a host of deep structural problems – including a bloated state, high levels of debt and an economically incompetent government," says Mark Zandi, Chief Economist for Moody's, the rating agency.

"It has also allowed its export sector to fall far behind Europe's leaders." A painful day of reckoning, Zandi believes, is fast approaching.

At the heart of France's problems is a lack of competitiveness. In the decade after joining the euro, France steadily lost ground to Germany. Since 1999 unit labour costs have climbed by 30% – three times faster than in Germany. That is almost identical to the rise in costs in troubled nations Greece, Italy, Portugal and Ireland. Worse still, while peripheral economies, such as Greece, have taken action to restore the appeal of their exports, France has continued to move in the wrong direction. In the past two years alone, French unit labour costs rose 4% while those of Greece have fallen by 9%. One result is that France's share of world export markets has almost halved since 1998 – a worse performance even than notoriously

Illustration: Adam Nickel for Synergy Art

uncompetitive Italy, figures from Thomson Reuters show.

Labour pains

The main culprit for this lamentable state of affairs, says Jennifer McKeown, Chief European Economist for research company Capital Economics, has been France's ultra-rigid labour laws. "The high level of employment protection means that French companies are simply unable to cut wages or even the number of hours worked when the economy deteriorates," says McKeown. Such regulations put France firmly in the camp of the PIIGS, some economists argue. In 2008 the OECD estimated that protection for French workers was stronger than in any other European country with the exception of Portugal. France also lost more working days to strikes than any other large European nation – twice as many as in Spain and 16 times more than in Germany.

Reforms to this sclerotic labour system have been agonisingly slow. Earlier this year, France finalised reforms that will allow companies to negotiate wage cuts with trade unions during hard times. "The downside is that this concession was granted by trade unions only in return for assurances that there would be no headcount reductions," says McKeown. "The high minimum wage also puts a floor under how far wages can fall."

The least painful way to restore this competitive position would be a currency devaluation, which would swiftly cut overseas prices of France's goods and services. Membership of the euro, however, limits that option. "The only way out is many years of slower wage growth than trading rivals like Germany," says Marc Chandler, Currency Strategist at Brown Brothers Harriman in New York. "That is what Spain, Greece and other failed European economies are being forced to endure."

One consequence of this would be slower economic growth, weaker tax revenues and a deteriorating fiscal position. Unfortunately France's fiscal situation already looks perilous – another characteristic it shares with the PIIGS. As a proportion of Gross Domestic Product (GDP) public sector spending accounts for 57.1%, which is far above the 42% average among OECD countries. This has contributed to spiralling government debt. As a share of GDP, this is in danger of rising above 116% in 2014, according to the OECD. That is the level at which some academic studies have suggested that debt burdens start to become dangerous. "Factor in a slightly lower growth rate and debt could even climb above 100% of GDP," says McKeown. Add in other mishaps in the eurozone and the situation could easily get far worse.

France could also easily be dragged down by a deterioration in neighbouring nations. French holdings in Italian assets, for example, are equivalent to a hefty 14% of GDP. Large French financial institutions would also sustain big losses if financial conditions in Spain deteriorate again. "This is a huge vulnerability for France," says Zandi. First of all, France would be obliged to participate in any international rescue package for Italy or Spain. In addition, the government may be compelled to rescue the giant French banks. In this worst-case scenario the debt to GDP ratio could surge to 120% of GDP as soon as next year, according to Capital Economics. The recent news that France will overshoot its own budget deficit target and has trimmed its growth forecast for 2014 only worsens the situation.

So far financial markets continue to give France the benefit of the doubt. As of mid September, the yield on ten-year French government bonds was 2.6% – just a tad above rock solid Germany's 2% and far below the 4.4% the market prices in for Spain. Meanwhile France's CAC 40 equity index had matched the 16% rise in its German counterpart over the past year. Such numbers simply reflect over confidence by traders and investors, according to Gave.

"There is a shocking degree of complacency in the market over France," says Gave. "The country is heading for trouble." It might not be long before economists are struggling to adapt the PIIGS acronym to include an F. ■

The ECB and France

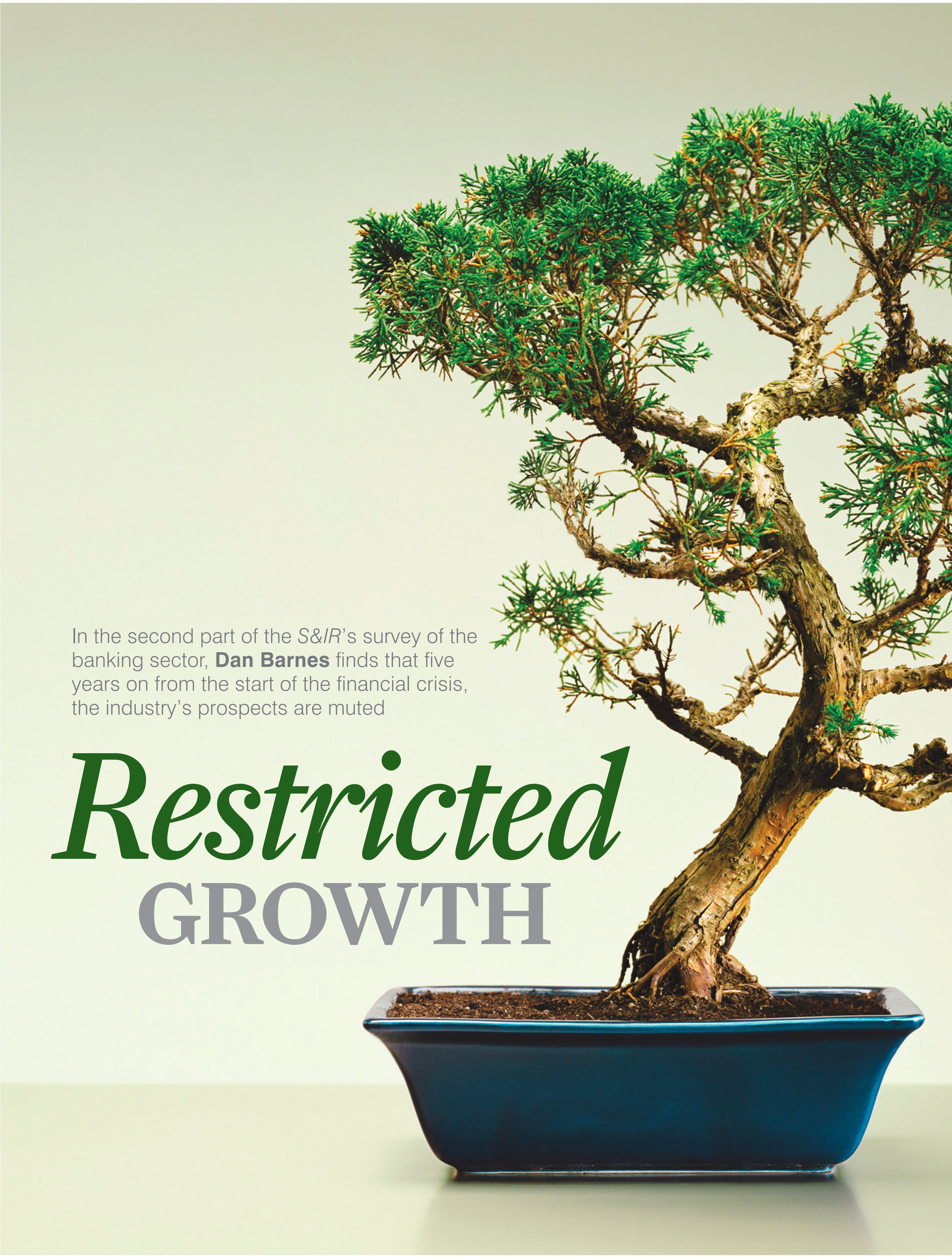
As Europe's second largest economy, France has around €1.9tn of public debt – about six times more than Greece. This means that a French meltdown would require a sizeable rescue deal.

"Aside from its sheer size, the biggest obstacle to a French bailout by the ECB would be the nation's pride," says Win Thin, a currency strategist at Brown Brothers. "To qualify for the ECB bond-buying programme, the French would need to accept conditions. That would be quite humiliating for France."

Another problem is that France has so far been a net contributor to rescue packages. If it starts to draw on such funds the entire eurozone would start to look more vulnerable.

Restricted GROWTH

In the second part of the *S&IR*'s survey of the banking sector, **Dan Barnes** finds that five years on from the start of the financial crisis, the industry's prospects are muted



Iamges: Getty

FIVE YEARS AFTER the collapse of Lehman Brothers, western banks are out of their sick beds and walking. However, they are still on a drip of central bank money, intended to get them back to work. Withdrawal of this credit in the short to medium term, combined with tough new regulations in the longer term, will leave them paler versions of their former selves.

Sandy Chen, Banks Analyst at advisory firm Cenkos Securities, says: "Over the past five years banks have performed remarkably well, but largely due to central bank munificence. Quantitative easing (QE), liquidity schemes, long-term repo [repurchase agreements], all of those central bank schemes were designed to make it easier for banks to stay afloat."

Andrew Dawber, Head of Advisory at merchant bank Salamanca Capital says: "Legislation has come through that will mean, for the foreseeable future, the banking industry will achieve lower returns on equity."

At face value some of the numbers for this year look impressive, particularly at the big banks. JPMorgan Chase, for example, pulled in \$6.5bn of profits in Q1 2013, compared with \$5.4bn for the first quarter of 2012. Stuart Gulliver, Group Chief Executive Officer at HSBC, noted that the firm's reported profit before tax for the first quarter of 2013 was up 95% on the same period in 2012, reaching \$8.4bn.

Banks' share prices have reflected the positive results, but they have not recovered to anywhere near pre-crisis levels. The Dow Jones US Financials Index peaked at an all-time high of 612.63 points on 20 February 2007 and then reached a low of 119.48 on 7 March 2009 (a level it had not seen since 1994). The index bounced between 200–299 points for the next three years, at last breaking the 300-point mark in mid-December 2012 and peaking this year at 379.2 on 2 August.

> ***"For the foreseeable future, the banking industry will achieve lower returns"***

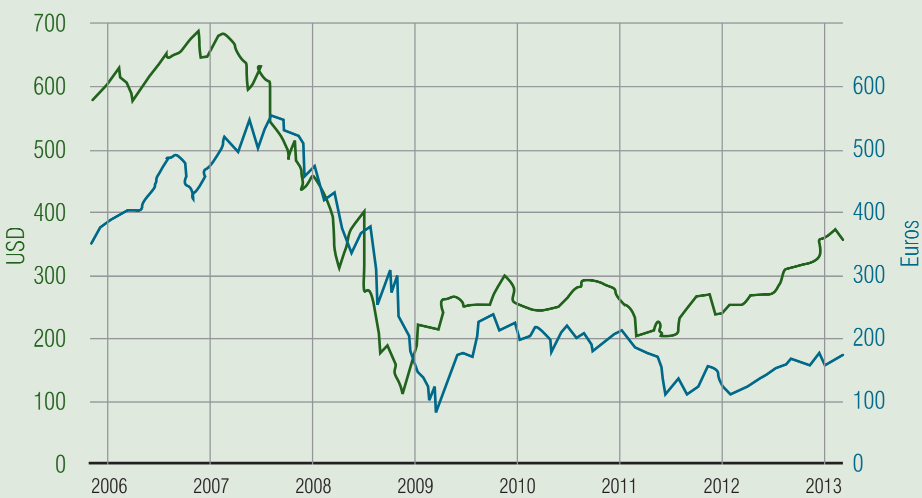
The STOXX Europe 600 Banks Index reached a peak price on 22 April 2007 of €543.77, and a low of €87.37 on 1 March 2009. It recovered to the €200–250 range that year which it maintained until the euro crisis in mid 2011 when it fell below €150; it reached a 12-month high in August of €185. (See figure 1.)

Stimulus, farmers and vipers

In Aesop's Fable *The farmer and the Viper*, the eponymous farmer is rewarded, after reviving a cold snake with his body's heat, by being bitten. Central bankers, having bailed out financial institutions during the financial crisis and provided them with cheap liquidity ever since, may feel some sympathy with the man. Banks, which are being revived

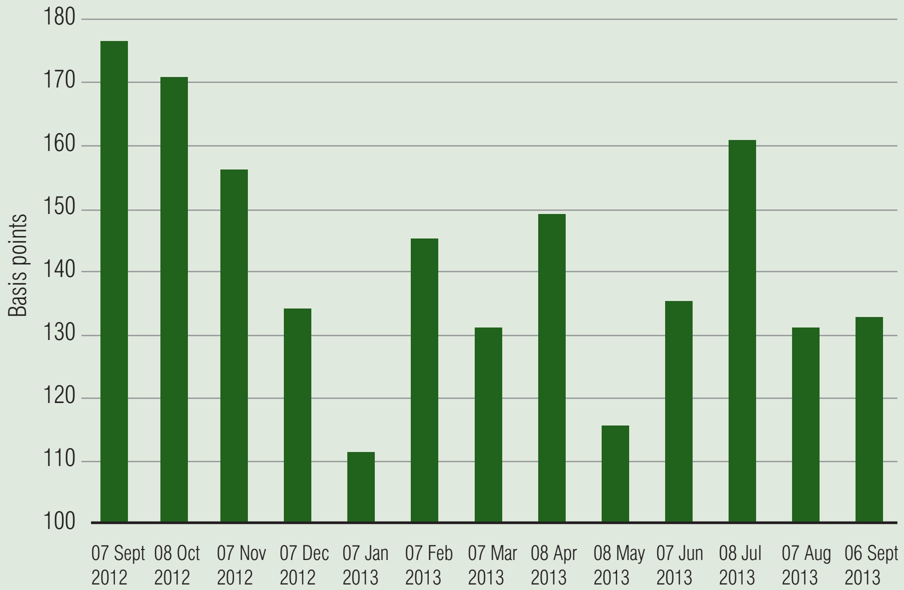
Figure 1 Dow Jones US Financial Services (Custom) Index (USD)

STOXX Europe 600 Banks Index (euros)



Source: Bloomberg

Figure 2 Credit default swap spreads on bank debt (measured in basis points) – Average for Lloyds, HSBC, RBS and Barclays



Source: Figures provided by Markit, the financial information services company

but asked to operate in unnatural ways, may feel some sympathy with the viper.

Central banks are keeping interest rates low and buying government and corporate bonds from banks to provide them with the capital to lend, thereby stimulating the economy. There are indications that when QE stops, banks will find funding through debt issuance more expensive. The spread on credit default swaps, the cost of insuring bank debt, increased substantially earlier in the year when talk of a ‘tapering off’ of QE hit the headlines (see figure 2) – a sign the market is not confident in the quality of bank bonds. Yet bank lending has not been forthcoming. In the UK, for example, annual household lending has grown at less than 1% on average over the past three years and lending to businesses has been even worse, contracting by approximately 3% a year over the same period, according to the Bank of England.

Simon Hills, Executive Director at trade body the British Bankers' Association, believes this is because small and medium-sized enterprises are not yet comfortable enough with the pace of economic recovery to be prepared to invest in new capacity and borrow to fund that investment, while lenders will want to ensure the borrower has a sustainable business model.

“Banks have benefited from generous central bank liquidity provision to put themselves in a better position by reformulating their balance sheets,” he says. “They aren’t lending because the wider economy is not at a comfortable point, to the extent that they want to start reinvesting.”

Despite their apparent reluctance to do the ‘right thing’, as the authorities might see it, Dawber says, banks are more conscious of their social responsibility than they were pre-crisis.

“At a corporate level lessons have been learnt,” he says. “There is acceptance that firms must present a responsible face, to regulators and the public. The fines being imposed at present and the reputational damage they create are severe. There will be less tolerance by investors and the community for banks continuing in that vein. Banks recognise that, if not from a philanthropic perspective then from the preservation of their business’s value.”

Reform school

The tough regulations being imposed by authorities mean that banks have little choice about demonstrating their willingness to reform.

Under Basel III “banks will be taking less risk for any amount of assets than they would have previously, whether that means holding more capital or simply lower returns,” says Martyn King, Sector Head for Financials Research at Edison Investment Research.

In addition to capital adequacy requirements, new rules are threatening to separate retail banks from their riskier investment businesses, forcing them to seek separate funding for each, and to use specific routes to raise capital. There will be less choice in the assets that can be held which

When QE stops, banks will find funding through debt issuance more expensive

may make capital raising more expensive, especially following QE.

“Looking forward, the question is whether they will be able to raise capital via convertible capital bonds, which convert into equity at a time of crisis,” says Hills. “The Banking Recovery and Resolution Directive, currently going through the European Parliament, suggests that banks should make up a proportion of their liabilities from these instruments. Whether there is enough appetite from investors for them, I don’t know.”

The combination of new rules, intended to reduce the risks that were exposed by the global financial crisis, will mean that many banks can expect to see their prospects worsen, warns Dawber.

“There has been a new framework forced on people, whether it is Basel III and the weight on lending, or the separation of parts of the bank such as trading. A lot of businesses such as private equity will not be as profitable as they once were and as a consequence I don’t think banks are going to be as profitable as they once were.” ■

Dear Member,

We all know how important it is for us, as an industry, to demonstrate to the outside world proof of our willingness to engage at the very highest levels of trust, on behalf of our customers and our clients.

Nearly half of our Fellows and full Members have already met our membership integrity requirements by passing either the Integrity & Ethics Professional Refresher module or IntegrityMatters, and now all Associate and Affiliate members are undertaking them too. Chartered members are already required to undertake an integrity test to gain their chartered status.

Whatever our job roles, whatever it is that we do, and whatever our firm, we all know that we have been associated with a loss of public trust in the financial services sector. It is therefore crucial that CISI members play the fullest part in demonstrating how they adhere to the high standards that our professional body claims.

By meeting the test requirements you are demonstrating the significance that you place in upholding trust and integrity, and we feel that this is the most tangible way of showing your support for the principles in our Code of Conduct.

In a world of change and cynicism we want to be able to say that all of our members adhere to the very highest standards of integrity and professionalism.

Should you not yet have passed the test yourself, you can find out more about the requirements and the steps you need to take, at **cisi.org/nextsteps**.

All CISI members, except student members and retired members, must meet the requirements by 31 March 2014.

Thank you for your support.

Alan Yarrow, Chartered FCSI(Hon)

Chairman

Chartered Institute for Securities & Investment

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The safety shot

As a Senior Adviser and former board member at Schroders, Alan Brown is keen to weigh up the investment landscape. He talks to **Dan Barnes** about the risks and opportunities that lie ahead

"THE GREATEST LESSON that I have learned, is that our ability to forecast is limited," says Alan Brown, Senior Adviser to Schroders Asset Management, and veteran of some 40 years in financial services. "The first point that one takes from that is to have a degree of humility and the second is to realise the value of diversification," he says.

Brown is a measured man, yet is assertive. Bright-eyed and thorough, he checks off the questions throughout the interview, and sets his jaw as he considers his answers.

He stepped down from the board of Schroders in May last year to concentrate, as he puts it, "on the fun stuff", investment management and client advice. One might expect that to occupy him full time, but he values diversification in his life as well as his portfolio. He is a family man and a grandfather which, he confides, "Is so much fun, it would almost be worth missing out the intermediate stage."

His attitude towards diversity is, he explains, guided by advice he received in his twenties from Sir Peter Parker, a British Army Major who played rugby for Oxford University and was a chairman of British Rail amongst other things – and father of Brown's then girlfriend.

"He said: 'We go this way but once; don't spend your whole life doing just one thing'."

In his role as a Senior Adviser to Schroders' clients, Brown is currently unpicking the

movements of the market and assessing a range of possible futures. He does so without the overconfidence of a salesman, which is undoubtedly more reassuring for clients in a volatile market, and he flips easily between academic theories, City aphorisms and observation on this journey.

"There is an old adage: 'The moment you think you've got the markets cracked you can hear God laughing'," he says.

"We know that there is a horrible bear market coming in bonds," he says. "The question is, will that mean there is also a horrible bear market coming in equities?"

Equity markets are increasingly being driven by big picture, macro events, rather than idiosyncratic company-specific events, he notes, but they are in reasonably good shape.

"We have had four years of rising markets and we are up a lot, so I would call that a bull market by any standards," he says. Equities "are not as cheap as they were, but in intrinsic value terms they still look reasonably good value. On relative value terms compared to government bonds they still look outstandingly cheap."

Government debt has created a massive bubble, he says and calculates that a ten-year US Treasury note should be yielding 5.5% rather than the 2.75% it trades at today.

"Going from a 2.75% to a 5.5% yield on a five-year duration bond means a loss approaching 15% in capital terms, which represents the best part of six years' income."

Tricks of the trade

Brown joined Schroders as Chief Investment Officer in 2005, moving to what is an active management house, from State Street Global Advisors (SSGA), renowned for being a passive investment shop.

But it has been his position on the board of governors at the Wellcome Trust that arguably sees him performing more of that 'fun stuff'. With a remit to 'support the brightest minds in biomedical research and the medical humanities', the trust has a £14.5bn investment portfolio, providing the income it needs to commit funds. The 'bright mind' epithet easily applies to Brown, whose near four decades in the investment management industry more than qualify him to comment on market dynamics.

"One of the problems with thinking about capitalisation-weighted benchmarks is that people think about relative valuations. As an active manager, you wonder whether one stock is more attractive than another, not necessarily about their intrinsic value. That can create bubbles. People are so worried about whether X is overpriced compared with Y, but we don't pay pensions on relative returns we pay them out of absolute returns."

> ***"We have had four years of rising markets... I would call that a bull market"***

Brown's background, working across both fixed income and equities, gives him a good balance when weighing up strategies and the freedom of his current role means he is still able to diversify his thinking. Fundamentally he wants to build portfolios that are robust.

"That is key. We recognise that valuation is the most important factor in determining whether future returns will be good or bad. On our clients' behalf, we help them resist selling when prices are falling and buying when prices are already high."

CV snapshot

2012 – Steps down from Schroders board, but remains a Senior Adviser. Also holds positions as a Governor of the Wellcome Trust

2005 – Joins Schroders as Group Chief Investment Officer

1995 – Joins State Street Global Advisors as Managing Director, rising to become Group Chief Investment Officer

1989 – As Chief Investment Officer helps to establish PanAgora Asset Management

1984 – Posthorn Global Asset Management, Head of Fixed Income

1977 – Goes through J.P. Morgan's Commercial Bank Management Program, rising to become Director of Investments, Fixed Income at Morgan Grenfell

1974 – Graduates from Cambridge University, having studied natural sciences. Joins Morgan Grenfell as equity analyst

Crisis management

Looking ahead, Brown sees both opportunity and risk in the fallout from the financial crisis. One consequence is likely to be a decade of low economic growth. He notes that emerging market equities have now underperformed and that they are starting to look much more interesting as a result.

"The trick of this game is to buy when markets are falling but people almost always buy when markets are going up," he says.

On the downside, a storm cloud on the horizon will be unintended consequences from poorly considered regulation, introduced ostensibly to both reinforce and punish the 'finance industry' post-crisis.

"We would like to see a better regulatory system in place – it did go wrong, after all, and most of us acknowledge that," he says. "But I sometimes think I would like to play chess against regulators because they don't seem to think very many moves ahead." ■

Photo: Schroders

Future dangers

On the prospects of an equity bubble, Brown says: "I don't think we have got there yet but it's a risk and that is why, personally, I don't want to see equity markets powering ahead regardless."

At present, his investment team is most divided on whether there is a greater risk of long-term inflation or near-term deflation and whether bond yields are more likely to fall to 2% or rise to 3% in the next six to nine months.

"There is a tightrope we have to walk between deflationary forces and inflationary forces," he says. "I was of the view that we would have to be extraordinarily lucky to avoid falling off one side or the other. However, post-war we had the experience of climbing out of the debt mountain, without crushing the economy or unleashing inflation. Can we get that lucky twice over? After the war the workforce was expanding and we had significant technology changes boosting productivity. For today, the jury is completely out on this one."

Image: Getty

Switching sides

Should former financial regulators face restrictions over what roles they subsequently take? **Beth Holmes** investigates

IN THE PAST few months, several senior professionals have made high-profile career moves that critics believe should be cause for some concern. Jon Pain, a director at the FSA until 2011, departed the regulator for a brief spell at KPMG before becoming Head of Conduct and Regulatory Affairs at RBS in August 2013. The FSA's CEO, Sir Hector Sants FCSI(Hon) left his role in 2012 to become Head of Compliance and Government and Regulatory Relations at Barclays. His former colleague, Matthew Elderfield, who went on to work at the Central Bank of Ireland, has announced his intention to join Lloyds Banking Group in October 2013, with responsibility for overseeing all compliance and conduct risk activities.

The question is whether such switches leave the individuals compromised, although there is no suggestion of any wrong-doing. In their previous roles with the regulator, they were privy to confidential information about their current employers' competitors, so should there be a ban on moves from regulatory roles to firms that are being regulated?

Employment lawyer Chris Syder, a partner at DAC Beachcroft, believes it is an interesting – and contentious – area, both legally and morally, and one that raises questions about restraint of trade clauses in employment contracts.

Such clauses are used as a means of preventing departing employees or partners from taking clients or information with them or from competing with the original business after the termination of employment. Imposing such clauses would mirror what is done in other areas of public office. Government ministers, for instance, are limited in career moves they can make after leaving office. Under Section 7.25 of the UK's Ministerial Code, they are not allowed to lobby Parliament for two years. They must also seek advice from the independent Advisory Committee on Business Appointments about any employment they wish to take up within two years of leaving government and may be deterred from taking up a position if the committee believes a particular appointment might be cause for suspicion of impropriety.

Regulatory insight

Whether such an approach should be extended to financial regulators remains contentious. "Should you be restraining because the nature of the regulatory role gives insight to a commercial organisation?" asks Syder.

"Does this present a legal conflict of interest? No, Hector Sants didn't have to sign anything saying he wouldn't move [but] is it appropriate that [these individuals] should be able to leverage knowledge in a commercial context?"

> ***"When you have a senior executive being employed in Civvy Street, it's about relationship building"***

In reality, the courts generally dislike restraint of trade clauses and are reluctant to enforce them, taking a restrictive approach to interpretation and so any mooted changes to the law in light of people moving from a regulatory to a commercial environment are most unlikely.

"When you have a senior executive being employed in Civvy Street, it's about relationship building," adds Syder. "And of course, ensuring the firm he is with stays the right side of the regulator. Is it a conflict of interest? Should they be barred? If so, for how long? That is restraining potentially unfairly. The reality is, it will carry on."

"Cultural and regulatory change are two of the principal issues facing the banks, and they're not going away. Recruiting candidates with a regulatory background gives both specific insight and a different cultural ethos," says Simon Hayes, Head of Financial Services Board Practice at Odgers Berndtson, one of the UK's pre-eminent executive search firms.

"Furthermore, understanding the regulatory agenda is about both content and approach," he adds. "Personal connections can play a major part in avoiding mistakes due to style or interpretation and can only help to build bridges between regulators and regulated."

Another point of controversy with Jon Pain's appointment is that he is the third former KPMG executive to sit on the board – and the nominations committee – at RBS. KPMG wins a large portion of RBS's lucrative contracts, having been handed two City outsourcing projects: those dealing with the avalanche of claims from customers over the misselling of payment protection insurance and interest rate swaps.

A spokesperson for KPMG says: "KPMG produces high-quality professionals and it is therefore no surprise that our alumni are appointed to some of the most senior roles in the City. We operate in a highly competitive marketplace and our clients choose from a wide range of firms, both in the accountancy profession and from boutiques. Of course, our alumni are a valuable network but we also have to pitch fiercely against competitors to win project work."

Taxing times

Meanwhile, the relationship between the big four accounting firms – EY, Deloitte, KPMG and PwC – and HM Revenue & Customs is also under scrutiny. The Public Accounts Committee, in its report *Tax Avoidance: the Role of Large Accounting Firms*, published in April 2013, looked at how such firms operate.

Margaret Hodge MP, Chair of the Committee, said upon the report's publication: "Our inquiry has exposed the continuing weakness of HMRC in its efforts to deal with tax avoidance. It is engaged in a never-ending game of cat and mouse. Among those ranged against it are the big four accountancy firms, which earn £2bn each year from their tax work in the UK."

The big four accounting firms, said Hodge, employ nearly 9,000 people to provide tax advice to companies and wealthy individuals, much of which is aimed at minimising the tax paid. Between them they boast 250 transfer pricing specialists whereas HMRC has only 65 people working in this area.

"The large accountancy firms are in a powerful position in the tax world and have an unhealthily cosy relationship with government," added Hodge. "They second staff to the Treasury to advise on formulating tax legislation. When those staff return to their firms, they have the very inside knowledge and insight to be able to identify loopholes in the new legislation and advise their clients on how to take advantage of them. The poacher, turned gamekeeper for a time, returns to poaching."

> ***"Recruiting candidates with a regulatory background gives specific insight and a different cultural ethos"***

Syder agrees that the members of the big four gain an advantage with such arrangements. "HMRC relies on secondments and the big four rely on providing secondees; it gives excellent training," he says.

The issue, though, is enforcement of any restrictions placed on what secondees can do when they return to their jobs. "You expect in the secondment there will be a respect of the confidential position of the host. But this is not enforced and it's impossible to see how it could be. There is no contractual agreement between the secondee and HMRC and the person on secondment is still employed by the firm."

But tax lawyer John Dewhurst, Principal of Chown Dewhurst LLP, told the *S&IR*: "Both HMRC and the tax profession in recent years have realised the benefits of working together and of greater transparency in their dealings with each other. HMRC benefits hugely from the contribution of tax advisers and private sector firms benefit from the experience of personnel recruited from HMRC."

At the end of the day, adds Syder, if people are worried that individuals are going to go back to work with inside knowledge on tax loopholes, it isn't the use of that knowledge that is the problem but the existence of the loophole – a point that can be extended to the rest of financial services.

"The regulators need to beef up," he says. "There are only concerns over this because the loopholes are there." ■

Ticking THE BOXES

The US has delayed the implementation of FATCA by six months but that does not lessen the need for financial institutions to act now to ensure compliance with the legislation. **Jayne Newton** explains

THE FOREIGN ACCOUNT Tax Compliance Act (FATCA) was enacted by the US on 18 March 2010, as part of the Hiring Incentives to Restore Employment ('HIRE') Act. The goal of FATCA is to assist the US to combat tax evasion by US persons (corporate and individual) who have financial accounts or investments outside the US. The FATCA regulations require banks and other financial institutions located outside the US (FFIs) to comply with complex rules with the ultimate aim of reporting details of their US account holders to the US Internal Revenue Service (IRS), either directly or through their domestic tax authority.

FATCA is the first piece of legislation that seeks to pierce the corporate veil and identify the individuals who are the ultimate beneficial owners of complex corporate structures. It is rapidly becoming the template for international tax transparency as countries seek to obtain greater insight into their residents who may be holding offshore accounts. The UK has already published draft intergovernmental agreements (IGAs) with each of the Crown Dependencies (Guernsey, Jersey and the Isle of Man) and announced its intention to enter into similar agreements with the British Overseas Territories. A total of 17 EU nations have already announced their intention to move towards automatic bilateral exchange along the lines of FATCA.

FATCA aims to identify the individuals who are the ultimate owners of complex corporate structures

The 'incentive' for FFIs to comply with FATCA is that otherwise they can be subject to a non-refundable 30% withholding tax applied to US source Fixed, Determinable, Annual or Periodic (FDAP) income from 1 July 2014 and also to gross proceeds (not gain) of the sale of US investments from 1 January 2017. Therefore, from a commercial perspective, for potentially thousands of FFIs worldwide that are dependent on raising funds in the US, there will be little choice but to comply. Such compliance may also lead to breach of local laws (for example in relation to data protection or banking secrecy) where there is no IGA in place.

The IGAs will either allow FFIs to submit reports on their US account holders through the domestic revenue authority (Model 1) or make them directly to the IRS, with the local legal impediments having been removed (Model 2). As of September 2013, only Switzerland and Japan had entered into Model 2 agreements with the IRS; however, the legislation to implement these IGAs in each territory has not yet been published.

How does FATCA affect FFIs?

FATCA will have an impact on:

- the funding opportunities of any non-compliant FFI as it is likely that global financial institution counterparties will prefer to deal with participating FFIs that comply with the FATCA rules

Image: Getty

- FFIs that have US proprietary/custodial investments irrespective of whether they have US account holders. It has been a common myth about FATCA that if an FFI wants to avoid having to implement procedures that are FATCA compliant, it can simply terminate all relationships with US customers
- all domestic and foreign subsidiaries of FFIs. Where ownership exceeds 50%, these subsidiaries will be deemed to be in an FFI's 'controllable' group for the purposes of FATCA. Compliance rules may differ from jurisdiction to jurisdiction and non-compliance in one jurisdiction could impact on the entire group.

Where IGAs are in place with the US, then FFIs will be obliged to comply with the domestic legislation introduced to implement the IGA. This effectively creates the obligation to comply with local laws and also helps to minimise the local legal conflicts that arose through the attempt to unilaterally impose FATCA on FFIs.

What should financial institutions be doing now to prepare?

On 12 July 2013, the US announced a six-month delay in the implementation of FATCA, which provides FFIs with a welcome opportunity to reflect on their state of readiness. There are many challenges in relation to complying with FATCA and identifying opportunities to mitigate both the costs of compliance and the impact on your customers. However, practical steps can be taken now to help manage the risks and devise the best route to compliance for FFIs.

Given that FATCA withholding tax commences on US FDAP payments, such as dividends and interest, from 1 July 2014, the clock is ticking for FFIs to ensure that they are prepared to manage the risks from that date.

It is inadvisable to wait until the effective date to determine how FATCA will impact on any group that contains entities that will be FFIs, and action should be taken now to ensure that an entity will become compliant with FATCA. These actions include:

- registering with the IRS Portal (as described below)
- adopting new terms and conditions
- new on-boarding procedures for new accounts
- account identification within the population of accounts opened on or before 30 June 2014
- developing withholding procedures for payments of US source fixed or determinable income, if legally applicable.

To the extent, they have not done so already, FFIs need to perform an impact assessment to determine how FATCA will apply to them. This assessment will entail a review of entities, lines of business, customers, geographies, products and sources of income.

Questions to consider in assessing the impact of FATCA

- Are entities part of an Expanded Affiliated Group (EAG) (ie, more than 50% controlled group)?
- Are any entities within the EAG FFIs (eg, banks, custodians, investment funds, insurance companies or trust companies)? (Please note that all FFIs within an EAG must become FATCA compliant.)
- Are FFI members (including branches) resident in IGA or non-IGA countries?
- Does each FFI within the EAG have financial accounts (ie, accounts that are reportable under FATCA)?
- Are there indicators that any of the account holders (direct or indirect) are US persons whose accounts are reportable under FATCA?
- Are any members of the EAG Non-Financial Foreign Entities (NFFEs)?
- Which members of the EAG (FFIs or NFFEs) derive payments subject to the FATCA withholding tax?
- How will each FFI become FATCA compliant?
- Will the FFI be a reporting FFI that will be required to enter into an agreement with the IRS under 'classic' FATCA and the Model 2 IGA or report to the local country under the Model 1 IGA?
- How should an FFI proceed if its country of residence is negotiating but has not yet signed an IGA?
- Will the FFI be a non-reporting FFI, or otherwise qualify as a deemed-compliant FFI or an exempt beneficial owner?
- When must an FFI become compliant to avoid the FATCA withholding tax?

The clock is ticking for FFIs to ensure that they are prepared to manage the risks

- How should an FFI deal with documentation and IRS forms, which forms and instructions have not been issued in final form?
- Are NFFEs 'active' or'passive' and how will they comply with FATCA?
- Does the FFI or NFFE have opportunities to minimise FATCA's impact through planning on how to achieve compliance?
- Will the FFI or NFFE be subject to local law conflicts with their FATCA obligations and, if so, how will these conflicts be resolved?

On 19 August 2013, the IRS opened its electronic FATCA registration portal to allow FFIs to register. In early 2014, the IRS will assign a global intermediary identification number (GIIN) to each FFI that registers under FATCA. The GIIN should be used as the FFI's identifying number for satisfying its reporting requirements and identifying its status to withholding agents, as appropriate.

All in the planning

The first deadline for FATCA compliance is now less than nine months away.

It will be essential that FFIs understand their legal and regulatory obligations in relation to compliance in all of the jurisdictions in which they operate. Otherwise they face the financial and reputational risks associated with non-compliance.

FFIs therefore need to plan carefully how to comply with the new regime. ■

Jayne Newton is Tax Investigations Director at DLA Piper

A hire purpose

A market-leading business allows a key member of staff to give pro bono advice to a small charity, only to find that she has been poached away for good

CALLIOPE IS A small business that, among its various activities, provides technical and educational support to a part of the financial services industry, while not being an IT consultancy. It is well thought of by its customers, who regard its products and services as worthwhile in helping them meet the increasingly high standards required of them by the industry regulator. Calliope is not the only business that undertakes these activities, but it is an industry leader.

Alex, the Chief Executive, is conscious of the need to maintain Calliope's leadership in its sector. However, he is happy to share the firm's experience with other bodies that do not compete directly with Calliope, believing that the promotion of a professional approach by the sector will benefit the industry generally. Accordingly, when he is approached by Terry, the head of Sorex, a small charity that is seeking to follow the same path as Calliope, but is lacking the resources to do so, he is happy to lend a member of Calliope's staff to provide advice and guidance. Relying on its charitable status, Alex is confident that Sorex will not act in any way that is commercially detrimental to Calliope.

Giving notice

Greta has a background in educational development and is experienced in introducing new systems. This was a major incentive for Calliope to hire her a number of years previously, a decision which it has had no cause to regret. As Head of Educational Development at Calliope, Greta regularly attends industry conferences and events, where she networks with her peers in similar bodies, as well as product developers looking to penetrate the sector. Because of this, she is well known in the particular sphere in which Calliope operates. This reputation, and Greta's recent attendance at a conference where she had spoken with a delegate who works for Sorex, resulted in Terry's call to Alex.

Greta spends two weeks with Sorex, helping the charity to identify the processes that will need to be revised in order to accommodate the new systems that it must adopt to be able successfully to deploy its new technology. She then returns to Calliope where she resumes her regular work. Terry is full of praise for what Greta achieved while with Sorex, telling Alex that the business would not have been able to make the necessary changes without Greta's help.

Alex is very pleased that his altruistic approach has been beneficial, but his previously positive feeling towards Sorex is extinguished when, two weeks later David, Calliope's Head of Development, comes to see him. David tells him that Greta has given notice of her intention to leave Calliope, saying that she has been offered another job, which will allow her to head up her own division, reporting directly to the chief executive. This is a challenge that she eagerly anticipates as she feels that at Calliope she does not have the level of responsibility that she really wants and which, she believes, her experience warrants. She will also receive a significant boost to her salary.

David tells Alex that he does not know the name of the potential new employer at this stage, as Greta will not tell him, saying that it is too early and that she is giving notice immediately so that Calliope has as much time as possible to find a replacement. Alex is understandably dismayed by this news, saying that he hopes it is nothing to do with Sorex and David responds that he cannot imagine that any

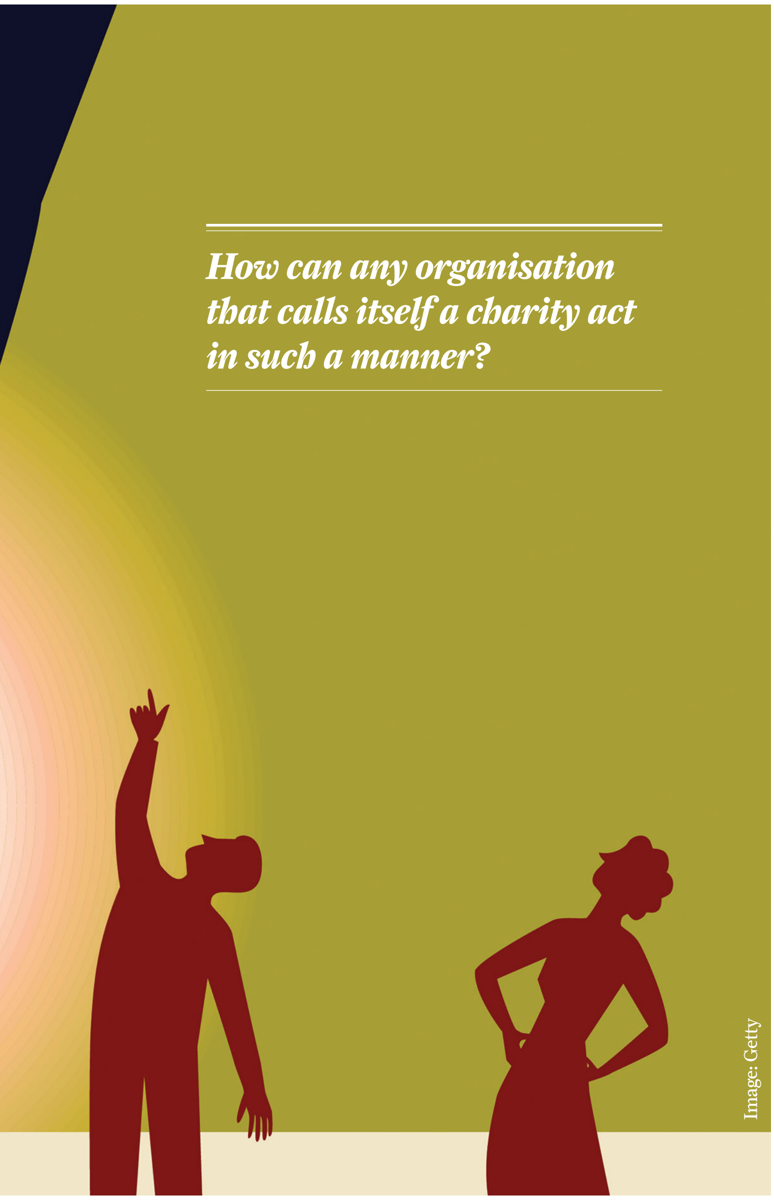


Image: Getty

organisation that claims to be a charity would act in such a manner.

Greta continues to work through her three-month notice period, without having revealed the source of her new job when Alex meets Terry at an industry event. While chatting over refreshments, Terry tells Alex that Sorex has embarked on its new product introduction, thanks largely to Greta's help. Terry adds that he is extremely pleased that Greta has decided to join Sorex and he is grateful that Calliope is not making her life difficult in the meantime.

Alex is flabbergasted by this news and takes another drink while considering how to reply. ■

How should Alex react?

• Simply accept that people move on.

• Feel justifiably outraged that Sorex has stolen a key member of staff and tell Terry as much, saying that he will take it up with his Chairman.

• Look for ways to block Greta's move, including litigation, if possible.

• Offer Greta a substantial salary increase and restructure the department to make her the head, in order to keep her.

Visit cisi.org/ahirepurpose and let us know your favoured option. The results of this survey and the opinion of the CISI will be published in the January 2014 edition of the S&IR.

Central casting THE VERDICT

John is a young and recent recruit to an asset management firm which invests client money in a variety of opportunities, both traditional and, in recent years, more socially responsible funds. Having been raised in a devout family and being very conscientious, John is perturbed when he is encouraged to recommend Castingcouch Inc., a well-performing company whose major business is the distribution of adult films. He feels uncomfortable with this prospect, from both his own perspective and that of the firm's clients. He faces a dilemma when asked for his recommendation by the investment committee. What should John do?

This was the Grey Matters dilemma that appeared in the July/August edition of the *S&IR*. Readers were invited to vote in a poll on the CISI website for the course of action that John should take.

The CISI response

Of the four courses of action offered, the majority felt that the ultimate decision rested with the investment committee, and John's responsibility was to present the facts to the committee in as impartial a way as possible, and let it decide. The expectation, however, is that the firm's values are not disparately aligned with John's own, and that the committee is more than likely to reject this investment opportunity. It was also suggested that John make his own views known, that his own feelings will inevitably enter into his reporting to the committee. At one end of the spectrum, a reader thought that it was totally unacceptable even to consider such an investment. At the opposite end, another reader saw no issue with this proposed investment.

Our view is that the best solution would be wherein John expresses his concerns to the committee. It is ultimately up to the committee to make the decision based on the facts. If John is not comfortable with that decision, he may feel compelled to pursue his career elsewhere, in an environment better aligned with his own values.

This example appears relatively straightforward, but for many investments it can be challenging to gauge their actual ethical nature. The recent example of the Archbishop of Canterbury speaking out about payday loan company Wonga, only to discover that a Church of England investment helped to support Wonga, is a case in point. Furthermore, it may be considered a subjective judgment to characterise a company like Wonga as unethical. British American Tobacco, for instance, provides products that are widely accepted as posing severe and potentially fatal health risks, yet it claims that it is merely providing a popular product to consenting and knowledgeable adults.

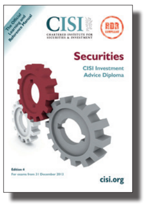
The ultimate decision about suitably ethical investments probably has to involve a judgment about the relative degree of good or harm in an activity. Castingcouch was not involved in anything illegal, but do arguments support the weight of benefit over injury to society in what it does?

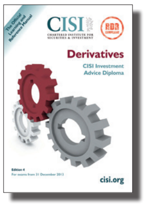
Need to read

The latest publications and study aids supporting CISI qualifications

NEW WORKBOOK AND ELEARNING EDITIONS

Investment Advice Diploma





New workbook and elearning editions of the following Investment Advice Diploma titles (covering exams from 31 December 2013) are due out in October.

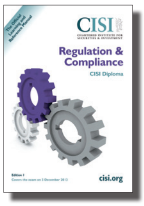
Securities: This unit will ensure that candidates can apply appropriate knowledge and understanding of securities, markets and related functions and administration.

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

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

NEW WORKBOOK

Regulation & Compliance



Regulation & Compliance, part of the Diploma programme, will test candidates' knowledge and understanding of the legal, regulatory and ethical framework of the UK financial services industry and their ability to apply such knowledge and understanding in a practical manner.

The corresponding workbook (covering the 3 December 2013 exam sitting only) is out now, and covers:

- the regulatory framework
- the FCA and PRA Handbooks of Rules and Guidance
- other regulatory provisions
- the regulation of markets and exchanges.

Price: £150

NEW WORKBOOK

International Introduction to Securities & Investment, Arabic version

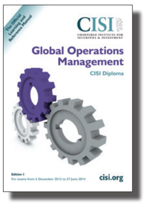
The Arabic translation of the *International Introduction to Securities & Investment* workbook provides an introduction to the world of financial services for people working outside the UK. It looks at the economic environment and the participants in the global financial services industry. A new edition (covering exams from 11 January 2014) is due out in October and will cover:

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

Price: £75

NEW WORKBOOK

Global Operations Management



Global Operations Management, part of the Diploma programme, will assist candidates with their understanding of operations and settlement procedures in order to service effectively the operations and settlement needs of a firm and its clients. The corresponding workbook (covering exams from 6 December 2013 to 27 June 2014) is out now, covering:

- equities
- bonds and fixed income
- funds
- cash and money markets
- financial derivatives
- the trading environment
- clearing and settlement
- regulation and compliance
- risks and controls
- asset servicing and custody.

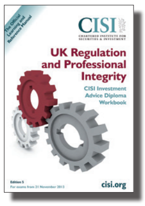
Price: £150

NEW WORKBOOK AND ELEARNING EDITIONS

Regulatory titles

New workbook and elearning editions (covering exams from 21 November 2013) of the following regulatory titles are out now.

- *UK Financial Regulation* (formerly *FSA Financial Regulation*) – part of the Investment Operations Certificate and Certificate programmes.



- *UK Regulation & Professional Integrity* (formerly *FSA Regulation & Professional Integrity*) – part of the Investment Advice Diploma programme.

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

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

ONLINE TOOL

Professional Refresher

The CISI's Professional Refresher is a training tool 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.

New modules are added to the suite on a regular basis and existing ones are reviewed by practitioners frequently. All modules are in line with the new UK regulatory environment. At the end of each module, there is a test which will help you to determine how much knowledge you have gained.

The product consists of more than 50 modules, including anti-money laundering and behavioural finance.

Passing a Professional Refresher module is logged under the CISI CPD scheme.

Price: Free for all CISI members or £150 for non-members. There are also tailored module packages and a reporting management site available for individual firms. Visit cisi.org/refresher for further information.

External specialists

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

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

The CISI would particularly welcome applications from specialists to assist with developing exams for any of its derivatives subjects, Advanced Global Securities Operations, Operational Risk, Administration of Settlement & Investments, Risk in Financial Services and Corporate Finance Technical Foundations.

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

Diary

Events to attend over the coming months

CPD training courses

Venue: London, unless otherwise stated

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

17 OCTOBER Getting to Grips with Operational Risk – for Non-Operational Risk Professionals† £500

22 OCTOBER Client Assets and Client Money (CASS)† £500

23 OCTOBER Integrity & Trust in Financial Services† (half day, morning) £150

5 NOVEMBER Hot Topics in Operational Risk† £500

6 NOVEMBER Getting to Grips with Risk Management – for Non-Risk Professionals† £500

7 NOVEMBER Building a Client-Focused Professional Service for the New World† £500

12 NOVEMBER Practical Guidance on Preventing Insider Dealing and Market Abuse* £500

14 NOVEMBER Conduct Risk: What Might We Expect in the FCA Environment? Practical Issues† £500

19/20 NOVEMBER Understanding Regulation and Compliance† £900

22 NOVEMBER The Use of Structured Products in Wealth Management† £500

26 NOVEMBER Advanced Leadership Skills for Investment Professionals† £300

27 NOVEMBER Suitability & Appropriateness: Avoid Misselling!† £500

4 DECEMBER Client Assets and Client Money (CASS)† £500

10 DECEMBER Mifid 2 and the New Regulatory Structure† £500

12 DECEMBER Sanctions Breaches – Avoiding Expensive Enforcement!† £500

Member and Fellow discounts

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

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

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

London CPD events

16 OCTOBER Fraud: A Price Worth Paying?
Dechert, 160 Queen Victoria Street, EC4

24 OCTOBER Cloud Services and Cyber Security Risks
Oriel Securities, 150 Cheapside, EC2

28 OCTOBER ETF Essentials
BlackRock, Drapers' Gardens, Throgmorton Avenue, EC2

31 OCTOBER Risk Prospects for 2014
Waterman's Hall, 16–18 St Mary-at-Hill, EC3

8 NOVEMBER Index Investing
BlackRock, Drapers' Gardens, Throgmorton Avenue, EC2

20 NOVEMBER FCSI Masterclass: Leadership Lessons from the High Seas
Little Ship Club, Bell Wharf Lane, Upper Thames Street, EC4

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

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

CISI London Annual Dinner

28 NOVEMBER Plaisterers' Hall, One London Wall, London, EC2

Sponsor BNP PARIBAS SECURITIES SERVICES

The CISI's premier social event of the year will feature as guest speaker Michael Portillo, journalist, broadcaster, and former Conservative Party politician and Cabinet Minister.

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

Branch events

16 OCTOBER Will China Rewrite the Rules of World Trade and Finance?†
Manchester & District: Yang Sing, 34 Princess Street, Manchester

16 OCTOBER Emerging Markets Debt: Entering the Mainstream?†
Bristol & Bath: Hilton Bath City Hotel, Walcot Street, Bath

18 OCTOBER Annual Dinner (Guest speaker: Eve Pollard)
Isle of Man: Mount Murray Hotel, Santon, Isle of Man

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

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

30 OCTOBER Flagship Annual RDR Event and Annual Drinks Reception
Jersey: Radisson Blu Waterfront Hotel, Rue de L'Etau, St Helier, Jersey

6 NOVEMBER Life After Debt: Where Next for the Economy and Markets?†
Manchester & District: Manchester Art Gallery, Mosley Street, Manchester

12 NOVEMBER Assessing Suitability and Remaining Ethical Whilst Avoiding Disputes (half day)†
Yorkshire: DoubleTree by Hilton Hotel, Granary Wharf, 2 Wharf Approach, Leeds

14 NOVEMBER Will China Rewrite the Rules of World Trade and Finance?†
Jersey: The Royal Yacht, Weighbridge, St Helier, Jersey

14 NOVEMBER Annual Dinner (Guest speaker: Nicholas Parsons)
Manchester & District: The Lowry Hotel, 50 Dearmans Place, Chapel Wharf, Salford, Manchester

25 NOVEMBER Social Media for Business: The Things You Really Need to Know
Jersey: The Royal Yacht, Weighbridge, St Helier, Jersey

28 NOVEMBER Gold and Its Place in Portfolio Diversification†
Manchester & District: Barclays Wealth, 3 Hardman Street, Spinningfields, Manchester

28 NOVEMBER Gold and Its Place in Portfolio Diversification†
Liverpool & North Wales: Rathbone Investment Management, Port of Liverpool Building, Pier Head, Liverpool

11 DECEMBER Portfolio Diversification with Commodities†
Guernsey: The Old Government House Hotel, St Ann's Place, St Peter Port, Guernsey

12 DECEMBER Christmas Drinks Reception
Liverpool & North Wales: Circo, Britannia Pavilion, Albert Dock, Liverpool

20 DECEMBER Christmas Drinks Reception
Manchester & District: TBC

31 JANUARY 2014 Annual Dinner
Guernsey: Beau Sejour Leisure Centre, Amherst, St Peter Port, Guernsey

27 FEBRUARY Annual Dinner
Northern Ireland: The Great Hall, Queen's University Belfast, 78 Malone Road, Belfast

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

RDR ANNUAL CPD

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

Professional forums

Members' events

Dennis Cox FCSI

The financial crisis has emphasised the importance of liquidity risk within financial institutions and the world at large. One of the regulatory responses to this has been the development of the Individual Liquidity Adequacy Assessment (ILAA) document, the liquidity equivalent of the Internal Capital Adequacy Assessment Process. Many firms are now completing these documents for submission to their regulators and management.

At an event on 21 November, the CISI Risk Forum will look at the issues relating to the development of the ILAA and place this within the global context.

Dennis Cox FCSI, Chief Executive, Risk Reward and Chairman of the Risk Professional Forum says: "The ILAA has the capability of being a really useful document for both management and regulators. This seminar will enable our members to talk through the key issues and learn how to deal with the challenges."

Make sure you do not miss out and book your seat now.

Title: ILAAs and Liquidity Risk
Date: 21 November 2013
Time: 12.30pm–1.30pm, followed by a light lunch
Venue: AXA, 7 Newgate Street, London, EC1A 7NX

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

To join the 900 members already signed up to the mailing list of the Risk Forum, please email pfs@cisi.org

The Risk Forum is one of six forums run by the CISI. The others cover compliance, corporate finance, financial technology, operations 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

EVENTS PREVIEW

Upcoming dates

Z/Yen Group has been conducting research on how using standards markets could improve financial services regulation. This research is supported by the BSI and the CISI. A presentation of the results will be held in the City, on 18 November 2013, part of CISI's CPD programme.

On 20 November 2013, Rear Admiral Chris Parry CBE, a former Royal Navy Officer and well-known strategic forecaster and author, will focus on 'leadership lessons from the high seas' at an FCSI Masterclass.

Exchange-traded products (ETPs) feature in two linked CPD events, on 28 October and 3 December at BlackRock, covering respectively the essentials of ETP investments and the outlook for 2014.

Diary date: On 17 February 2014 the CISI will co-host the Mansion House City Debate with the Centre for the Study of Financial Innovation.

For details of these and other CISI events, please visit *cisi.org/events*

Member memory

Peter C. Armour, Chartered FCSI, Chairman of Beaufort Asset Clearing Services, is celebrating working in the City for 50 years. He reflects on his career

Peter C. Armour, Chartered FCSI

"I started my life in the City with Cazenove & Co in August 1963 and over the following years witnessed many recessions, booms, bubbles, crashes and a bang. I am one of a very small number of people working today who worked on the original London Stock Exchange trading floor, which was demolished in 1969.

"I recall in my early years working on a very advanced computer, an ICL Hollerith machine the size of a squash court, to produce Cazenove's first electronic contract note. Modern mobile phones have infinitely more processing power.

"I was then very fortunate to be selected as Cazenove's first ever trainee, working in every department of the firm over the course of two years. Ultimately, I was appointed to the 'Box' – a room beside the trading floor where dealers were able to call clients privately and collect orders – where I worked for 15 years as a senior dealer in overseas companies.

"Following Big Bang in 1986 I became Cazenove's Head of Asian Trading, a position I held for the following 20 years.

"Among my favourite memories are:

- being involved in numerous takeovers, mergers, acquisitions and listings
- creating the Cazenove Indian GDR Index
- being head of the Cazenove long service 'Blue Dinosaur Club' for seven years
- being clapped off the Cazenove trading floor at retirement.

"Following my retirement from Cazenove in April 2006, which was after a record 42 years, I was invited to:

- be a trading consultant at JO Hambro Investment Management
- be involved in the start-up of Newland Stockbrokers
- create the Equity Brokerage division of Beaufort International.

"Overall I have been continually employed for 50 years, leading up to my Chairmanship of today.

"Throughout these amazing years the CISI has always provided insight, information and support."

Share memories of your career in financial services with CISI members. Email: *richard.mitchell@cisi.org*

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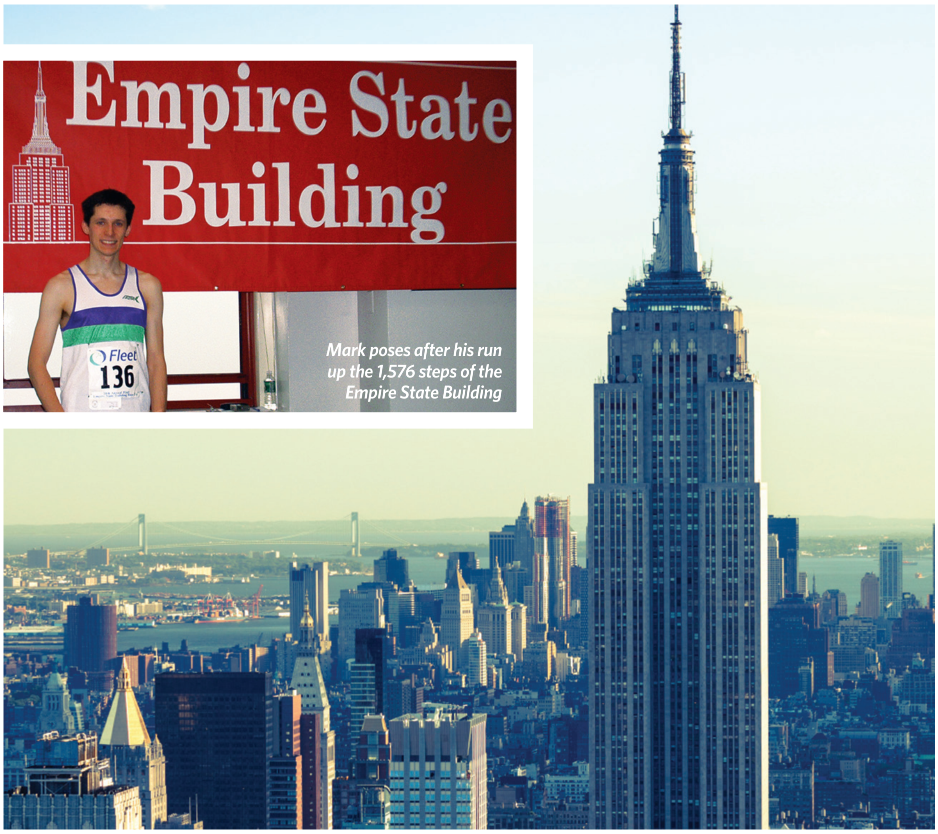
This list includes admissions and upgrades from 1 July to 12 August 2013

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



Mark poses after his run up the 1,576 steps of the Empire State Building

Just to put some of Mark's races in perspective, here are the stats:

- Beetham Tower, Manchester (169m high, 798 steps): 1st out of 129 runners. Personal best time (PBT): 4:41
- Empire State Building, New York (443m high, 1,576 steps): 8th out of 106 runners. PBT: 12:34
- Tower 42, London (182m high, 920 steps): 8th out of 882 runners in 2011; 15th from 1,200 in 2012, with 15 professional runners competing. PBT: 5:01
- 30 St Mary Axe, the 'Gherkin', London (180m high, 1,037 steps): 1st out of 443 runners in 2011. PBT: 4:41 in 2012
- Spinnaker Tower, Portsmouth (170m high, 570 steps): 1st in 2010 and 2011. PBT: 2:18 in 2010
- Danube Tower, Vienna (150m high, 779 steps): 19th out of 327 runners. PBT: 4:26
- Royal Liver Building, Liverpool (90m high, 483 steps): 1st man in annual event from 1999 to 2007. PBT: 1:41 (set in 2000 and 2005)

Tower of STRENGTH

Mark Sims, Chartered MCSI takes sport to another level as a tower runner. **Lora Benson** reports

Mark Sims

RUNNING TO THE top of New York's 443-metre high Empire State Building is a tall order. But Mark Sims can take pride in that towering achievement, racing up the 1,576 steps of the iconic structure in a mind-boggling 12 min 34 sec to finish eighth out of 106 runners.

It was among 22 tower running events Mark has entered – and he has won 17 of them.

Mark was introduced to the pastime after he moved to Liverpool in 1999 to join Tilney Investment Management.

He recalls: "I was invited to join a team the company was entering in a race up the Royal Liver Building. We won the event, with me being the fastest male, and having found I had a talent for stair racing I searched out other races and it 'escalated' from there."

Now a Supervisor, Corporate Actions, for Pershing in Liverpool, Mark is looking to overcome a major obstacle – finding a suitable training environment.

When preparing for a race, Mark undertakes two or three stair running sessions a week, along with five workouts targeting the muscles used in his gruelling sport. In addition, he cycles and runs for overall fitness.

Mark says: "I used to have access to train on the stairs of the Royal Liver Building, where I work. However, that has now been removed. So if anyone could grant me access to a tall building in central Liverpool for training, that would be great." Mark can be contacted at mark.sims@pershing.co.uk by anyone who can offer him training facilities.

So what is the secret to being a successful tower runner? Mark says it is an advantage to be light, strong and supple – but above all determined. "Keeping yourself going when everything in you is saying 'stop!'," is the essential ingredient, he says.

> *"Should anyone ever organise a race up the Shard, I'd been keen to take part"*

At most events, says Mark, competitors set off in waves and it is important not to start at the back of the field.

At the biggest race in which he has taken part, a 1,200-competitor run at London's Tower 42, around 50 runners were sent up at a time over short intervals. For the Empire State Building run, Mark was among 60 or so unseeded competitors, all sent off at once, racing from the lobby towards the one small stair-well.

He says: "I try to get to the front of the group before the start so I can get a clear run. It doesn't always happen but people can hear you coming so will generally move to one side for you.

"I prefer races over a smaller distance because my technique involves going up between two to four steps at a time and it isn't easy keeping that up for more than a few minutes – it's easy to start off fast and find you have nothing left half-way up.

"I'm not too keen on short flights of stairs as they disrupt your rhythm. I've raced up the St John's Tower in Liverpool a couple of times and the flights are only five steps before you turn back on yourself for the next five, which ends up making you quite dizzy."

As for his future ambitions, Marks says: "Should anyone ever organise a race up the Shard, I'd be keen to take part." ■

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

A date in Mark's diary is 23 November, when he will run in the Great Yorkshire Stairclimb in Leeds (the race is in aid of the Yorkshire Cancer Centre and consists of 522 steps to the top of Bridgewater Place). To find out more, including entry details, visit *g-rexfitness.com/gysc/*

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