SECURITIES & INVESTMENT SEPTEMBER 2012

REVIEW

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

THE *moral maze*

Should investment advisory work include an ethical element when it comes to tax planning? *page 12*

Muddy waters

How confusion is hampering the FSA's scrutiny of significant influence functions, p16

Blinded by science

Why were small businesses sold excessively complicated interest-rate swaps? p20

REVIEW

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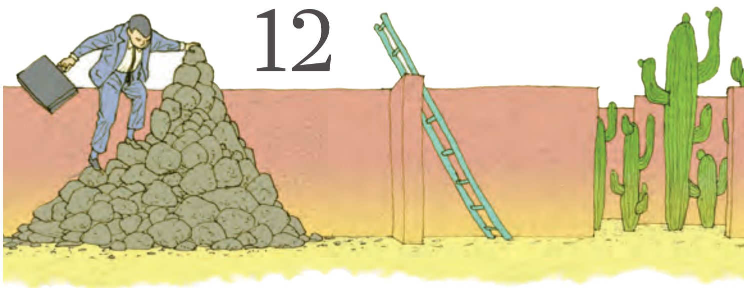
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IS CITY LIFE CRAMPING YOUR STYLE?

DO YOU WANT TO WORK IN OUR SPACE?

Are you a qualified (CF30) investment adviser with a transferable client base?
Would you like to work for a small independent stockbroking firm?
If your answers are yes, please write to or call:

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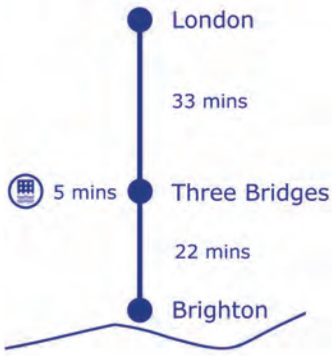


Dowgate has been in business for over 20 years. We have just completed a management buy out and are looking for new investment advisers to join us. We offer a traditional stockbroking service mainly to private clients. In addition, we provide corporate broking services to smaller companies on the AiM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

CISI OPINION

The CISI has supplied written evidence to the Government's inquiry into banking, giving its views on how the sector needs to change

Answering the call

THE PARLIAMENTARY COMMISSION on Banking Standards, the Tyrie commission, is looking at the culture and standards of banking in the UK. In its call for written evidence, it asks a series of seven questions. These range from how the UK compares with other countries, via the impact of our standards on bank customers, both retail and wholesale, to what can/should be done now.

The CISI has responded to the call for written evidence, notwithstanding that the majority of our members, even when working within banking groups, are not employed in jobs that might be regarded as banking in the traditional sense.

We believe that a root cause of many of the problems displayed by banks was the adoption by the retail banking industry of a sales- and target-driven culture on the one hand and, on the other, particularly in wholesale banking, a lottery-level bonus culture without adequate consideration of the potential consequences. These changes of strategy represented a sea change from the 'boring banking' that had been the norm, and the industry was ill-equipped to cope with their impact. Consequently, the changes have been extremely detrimental to the established behavioural standards within all types of banks, but were particularly damaging for retail customers.

The resultant banking disaster that was payment protection insurance has so corroded trust in banks and banking that every subsequently publicised 'wrongdoing' is assumed to be the result of deliberate action, both individual and corporate, driven by greed. The news of huge fines imposed by regulators even generates a kind of perverse satisfaction that banks (and bankers) are simply getting their just desserts.

The fundamental question is what, if anything, can be done to reverse this seemingly irreversible negative view? Is there something that the industry itself can do, or are we reliant on the 'dead hand of regulation'?

We believe that an important part of the answer is that if banking is to continue to view itself as a profession, then it has to behave like one and accept or adopt the generally accepted requirements of a profession: academic standards, ethical standards, tests of competence and continuing professional development. This can be achieved through a multifaceted approach that would see action taken by individual firms and by the industry itself, with the help of professional bodies and backed by regulation, in a major drive to raise ethical standards.

> ***There need to be visible penal sanctions for major failures***

But, in terms of public acceptability, there also needs to be a visible application of penal sanctions for major failures. These sanctions should encompass the whole range of options, from significant financial penalties and a ban on any industry involvement to custodial sentences for serious wrongdoers. One might ask why, if this can be an outcome of the Bribery Act, similar sanctions cannot be a part of any Finance Act, since the outcome of financial wrongdoing can be systemically destructive.

We suggest that every bank should have an ethics committee. This would be responsible for ensuring that the bank's policies and procedures contain an ethical dimension (to act with honesty, openness, transparency and fairness), and that these are followed in practice. To this end, the members would be from outside the bank and the board (which has other duties as well as ethics). The committee would have input into the bank's remuneration strategy, would produce an annual report to the board (to which it would report), and would have the power to call for any information it requires to fulfil its duties.

Professional bodies have demonstrated that they have a valuable role to play in providing an ethical framework of training and setting standards for individual behaviour that does not contain any corporate bias, and the FSA accepted this when framing the requirements of the Retail Distribution Review. Its continued reluctance to establish similar levels of professionalism more broadly across the industry is a surprising and ultimately indefensible stance. ■

Turn to page 20 to read about the misselling of interest-rate swaps to small businesses.

Upfront News and views from the CISI

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

REGULATION

Gaining a European perspective

Martin Watkins, Chartered FCSI

A new interest group for CISI members will focus on European regulation.

The group will provide an insight into the approach and processes that drive European regulation and supervision, highlight the activities covered by EU supervisory bodies and consider hot topics and cultural differences. The inaugural meeting will take place in early October and will be chaired by Martin Watkins, Chartered FCSI.

He said: "The 'Brussels Impact' on UK financial markets has never been greater. Policy-makers responded to the economic crisis with a plethora of structural and regulatory change. Permanent new supervisory authorities have been established and the effect of European regulation on securities and investment is far-reaching, business-critical and constantly evolving."

European financial services are regulated by three new European Supervisory Authorities, each of which is working with the new European Systemic Risk Board to ensure financial stability and provide macro-prudential oversight. New legislation has given these authorities EU-wide powers to temporarily ban financial activities; supervise credit rating agencies; co-ordinate during a crisis; and make decisions that bind national supervisors and firms.

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

ONLINE

Social media boost for Institute

Members can now follow the Institute on Twitter @CISI.

As the CISI develops its presence on Twitter, it will use the platform as another important media source with which to update members and stakeholders on its local and global activities and initiatives.

The Institute already has a group on business-networking site LinkedIn, which is continuing to grow and now has more than 4,000 members. To join, apply to the Chartered Institute for Securities & Investment Official Members' group at linkedin.com

Members are using LinkedIn to discuss industry events, seek answers and advice and create and encourage industry thought and debate. Additionally, updates are given by the CISI on forthcoming events and new developments and member benefits. Members can also join a number of sub-groups, which include risk, operations, corporate finance, compliance, financial technology, Islamic finance, wealth management and training & competence.

The CISI is interested to hear members' views about the Institute and social media. Would you like to see the Institute on other social media sites?

Send your comments to *marketing@cisi.org*. The CISI is running a wealth management forum on social media on 25 September. For details, see page 28 or visit *cisi.org/pifs*

LONDON 2012

Member's Olympic challenge

Mila Burt ACSI struck gold as a Games Maker volunteer at London 2012.

Mila, a member of the CISI since 2008, was part of a team responsible for VIP areas at Wembley Arena, which was a venue for gymnastics and badminton. She helped to greet royal visitors and heads of state.

As part of her duties, Ukraine-born Mila was a language-services specialist, acting as an interpreter for Olympians from her homeland and Russia, including in media work. Among athletes she helped were Valeria Sorokina and Nina Vislova, who won a bronze medal for Russia in the badminton women's doubles tournament.

Mila, centre, with Russian medal winners Valeria Sorokina, left, and Nina Vislova

Mila said: "Being a Games Maker meant working long hours for ten days, but it was the best job in the world." Following the Games, Mila, who now lives in England and is currently on a career break, participated in the opening ceremony for the Paralympics at the Olympic Stadium in Stratford on 29 August.

SURVEY

Trust in banking is minimal

Two-thirds (68%) of financial services players retain little or no trust in the UK banking industry following the latest scandals to hit the sector, a CISI survey shows.

Of respondents, 25% had zero confidence in banks. That compared with 2% who consider the under-fire sector to be totally trustworthy. Between those viewpoints, the level of trust of those taking part was: 'little' (43%); 'reasonable' (21%); and 'significant' (9%).

Arguing that the banking sector has been "corrupted" by the need for annual profit growth at all costs, one respondent commented: "Enforced integrity and complete transparency is the only solution." Another said: "The scandals and greed never stop. We need to see a clean financial services sector with no more FSA fines for the next five years to rebuild trust. Only personal fines for directors and prison for perpetrators can change the fat-cat culture."

"An embarrassment to all of those who call ourselves bankers," was a further viewpoint. Another was: "It is important to keep a sense of perspective – a few bad apples should not tarnish an entire industry."

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

APPOINTMENTS

New branch President

Alan Budenberg, Chartered MCSI

Alan Budenberg, Chartered MCSI, has been appointed President of the CISI Manchester & District branch.

Alan has worked for Barclays for more than 28 years. He is currently a portfolio manager within the Wealth & Investment Management division, managing private clients and charity monies from the Manchester office.

2,142 The number of members who have used the CISI publications app to download the *S&IR* and two other Institute publications, *Change – the Regulatory Update* and the *Investment Management Review*. The app is available at *cisi.org/app*

Postbag

Letters to the *S&IR* can be sent by post to Richard Mitchell, Communications Editor, Chartered Institute for Securities & Investment, 8 Eastcheap, London EC3M 1AE, or to *richard.mitchell@cisi.org*

Dear *S&IR*,
Since the Retail Distribution Review (RDR) was first mooted, I have spoken to a large number of brokers in their 50s and 60s at firms across the City and a worrying number of them, who would otherwise have carried on, are retiring rather than 'go back to school'.

An entire generation of brokers sailing into the sunset – their wealth of experience prematurely lost to colleagues and clients alike. These are brokers who have seen Black Monday in 1987 and even the oil crisis of the early 70s. Steady hands departing – hopefully not from a sinking ship.

I strongly believe that competence is best determined by individual firms. Surely the huge amount of money being spent on compliance and internal controls must have some benefit? For reputational reasons, any firm that finds it has a problem broker will take appropriate action sooner rather than later.

It is hard to prove that anti-money-laundering regulations have prevented any money laundering from taking place, but it is easy to show how millions of law-abiding people have been inconvenienced, and many humiliated to boot. I fear that the RDR is a similarly expensive sledgehammer to crack a similarly elusive nut. In addition to losing a huge number of highly experienced practitioners, will an adviser with a level 4, rather than level 3, exam pass really be a better adviser? I note that there is a proposal to make a degree a prerequisite to join the police force. Strangely, no one has suggested all current serving officers should be required to pass a degree-level exam merely to retain their jobs. That would be absurd!

Andrew Watson ACSI, New Malden, Surrey (worked in the City from 1987 to 2010, with private-client brokers Shaw & Co, Charles Stanley and, most recently, as a Director of Reyker Securities)

Dermot Whelan, Manager, Professional Standards Team, Conduct Policy Division, FSA, replies:

"The RDR is designed to modernise the investment-advice sector and address the numerous problems we have seen in this sector over the past two decades, including the misselling of investment products.

"We remain of the view that the new qualification level should not present problems for experienced advisers who have kept their knowledge up to date. To help meet the new requirements, we have developed a flexible approach to the way advisers can qualify. There is a range of qualifications available that do not rely on a formal exam-style assessment, and work-based assessments have been developed specifically for those who do not wish to sit an examination – which should be helpful to more experienced advisers.

"The decision on grandfathering was not taken lightly, but followed extensive consultation with the sector. Those respondents (who included consumer and IFA representatives) told us that they felt that grandfathering would not achieve a level playing field for investment advisers.

"We have undertaken a number of preparedness surveys, which told us that 71% of advisers were already qualified with an appropriate qualification, with a further 22% studying towards one. Further surveys are planned before the end of 2012."

Dear *S&IR*,
I read Dan Barnes's 'Shareholder Spring' article (*S&IR*, July/August 2012) with interest, but voting on remuneration packages (excessive or otherwise) is only one element of corporate governance.

Today, the individual shareholder often seems forgotten as chief executives court institutional investors, yet a chairman and board of directors are as accountable to Mr Smith and Mrs Jones as they are to the likes of Fidelity and M&G. Each is part owner of the business that the chairman and directors are charged with running on behalf of the shareholders, *in the shareholders' best interests.*

Of course, most companies will want to get their big investors 'on side' before they open the voting on shareholder issues, but, in considering their voting intentions, these institutions have a responsibility to vote for the resolutions that best serve the continuing interests of the company and thus the interests of *all* shareholders.

Many individuals now hold shares through a nominee company for good reasons, but, as a result, they may be in the dark about what is going on. How many know that they are as entitled to attend meetings, ask questions and vote on resolutions as if the shares were in their own names? One suspects that the answer is 'not many' and, if the question were asked about whether they were routinely informed of these rights when signing up to a platform or discretionary management service, the answer would likely be 'almost never'.

Shareholder action groups generally raise their heads only when there is some major issue that angers, such as this latest rebellion against the perceived culture of 'rewarding failure', yet individual shareholders are more in need of grouping together now than ever before. If they could act in concert, individual shareholders would have a significant amount of power, so perhaps it is time the nominee companies started (a) apprising individual shareholders of their rights and (b) working together to create shareholder groups that can act as proxies, give guidance on corporate issues and act to protect the interests of the individual shareholder.

We need more transparency in corporate governance. Sadly, right now, much of it seems to be a cosy closed shop between big institutional investors and the plcs in which they invest – often, one suspects, with the interests of the individual shareholder forgotten in the chase for the returns that, ironically, we are guilty of demanding.

Frank Dolan, Chartered FCSI, Novatis Asset Management, London

CONSULTATION

Joint publication proposes a "big idea"

Andy Haldane

'Confidence accounting' is the theme of a new consultation document recently published by the CISI, in association with Long Finance and accountancy body ACCA.

The proposed benefits of the new scheme include a fairer representation of the risks around financial results, achieved by using distributions, rather than discrete values, in auditing and accounting statements. Andy Haldane, Executive Director for Financial Stability at the Bank of England, welcomed the document. "Confidence accounting is a big idea," he says in his foreword. "In the light of the crisis, anything less than a radical rethink would be negligent."

For a copy of the report, email *george.littlejohn@cisi.org*

Global risk guru Brandon Davies, one of the team behind the report, will conduct a masterclass for FCSIs over dinner at London Capital Club on 1 October. He will discuss risk and the board, focusing on emerging issues around risk measurement. Then, on 8 November, he will address a London CPD event on shifting definitions of risk. For details, see *cisi.org/events*

EDUCATION

University link gives students the edge

Professor Jeff Bale, Deputy Pro Vice Chancellor, the University of Birmingham, and CISI Managing Director Ruth Martin, both seated, sign the agreement. They are pictured with University of Birmingham staff members

The CISI has reached a fitting milestone in its 20th anniversary year: partnership with its 20th UK university.

The link-up is with the University of Birmingham, which has been accredited as a CISI Centre of Excellence in finance teaching. The agreement allows the university to develop a joint undergraduate programme as well as recognising excellence at postgraduate level. Its finance students will be given student membership of the CISI when they enrol on a programme, allowing them access to a range of professional networking and career-development opportunities. Students will also be able to complete professional qualifications, such as the CISI Investment Advice Diploma, while studying.

CISI Managing Director Ruth Martin said: "Universities are keen to offer their students every opportunity to gain a competitive edge in today's difficult job market. The student who obtains a CISI professional qualification in addition to their degree is immediately presenting any future employer with a recognised industry benchmark demonstrating early on their potential skills in the area of finance."

Dr Paul Cox from the University's Business School added: "This is an exciting partnership that will offer Birmingham students the opportunity to work with one of the most widely respected professional bodies in the securities and investment industry."

The CISI works with universities in several ways. As well as in undergraduate education, where universities embed Institute modules into programmes and students undertake the exams, there are Centres of Excellence, where outstanding performance at postgraduate level is recognised, giving full exemption against the CISI Diploma, and accredited training providers that deliver training for CISI modules.

For further information about the CISI's links with universities, visit the education section at *cisi.org*

SELECT BENEFITS

Events assistance

From conferences to Christmas parties, take the strain out of looking for events venues with CISI Select Benefits.

As part of the Select Benefits package, Institute members have access to the Venue Team, an experienced venue-finding agency.

Its free venue-locating service can be used for events ranging in size from one-to-one meetings to dinner dances for more than 1,000 delegates.

The service is backed with a price promise, meaning that users secure the best price available, without the need to shop around. Venues include Hilton, Ramada Jarvis, Marriott and De Vere hotels.

For more information, call *08446 606 004* and quote CISI Venues, or visit CISI Select Benefits via *cisi.org/mycisi*

Terms and conditions apply. See website for further details. Details correct at time of publication. CISI Select Benefits is managed on behalf of the CISI by Parliament Hill Ltd of 127 Cheapside, London EC2V 6BT. Neither is part of the same group as a provider.

TRAINING

Spanish partnership still going strong

The CISI has renewed its relationship with its main partner in Spain, accredited training provider (ATP) I.F.A. Instituto Financiero.

Based in Madrid, I.F.A. has trained more than 600 CISI exam candidates in Spain over the past seven years. I.F.A. is currently the only provider in Spain to offer training for the Spanish version of the International Certificate in Wealth Management (ICWM).

The agreement between the two organisations was renewed by CISI Managing Director Ruth Martin and José Torregrosa, I.F.A.'s President.

The CISI has more than 50 ATPs, spread globally from Sri Lanka to the Bahamas.

ONLINE

BEST OF THE BLOGS

1 tinyurl.com/newscotsman-taxavoidance
Elspeth Orcharton in *The Scotsman* welcomes the growing debate about tax-avoidance schemes, arguing that it offers the opportunity to simplify the rules. Orcharton calls for "a clear demarcation between acceptable and unacceptable tax planning [...] within a sound legislative framework". This will be a great help to tax practitioners, who must tread the line between promoting avoidance schemes and acting in their clients' best interests.

2 tinyurl.com/newstatesman-taxavoidance
George Eaton offers a scathing assessment in the *New Statesman* of the Government's crackdown on tax avoidance. He argues that the new policy of 'naming and shaming' scheme operators is toothless, since existing negative publicity would have already helped stop the practice. Eaton also decries the new 'anti-avoidance rule', which he says will "do little to end the cat-and-mouse game between HM Revenue & Customs and avoiders", because as the Government closes one scheme, another opens. Instead, he suggests, the rule should become a principle, whereby intent is considered alongside practice.

3 tinyurl.com/conservativehome-taxavoidance
Following Treasury Minister David Gauke's claim that paying workmen cash in hand to get a discount is "morally wrong", Jill Kirby at conservativehome asks how, in future, the "boundaries of taxation are to be set". Bemoaning the Government's lack of faith in the population, she wonders whether the Treasury will "now examine every taxpayer's motives and decide whether such actions are 'moral'".

4 tinyurl.com/guardian-taxavoidance
Lydia Prieg in *The Guardian* argues that reprimanding those who market tax-avoidance schemes does not go far enough, because the practice is systemic – a "hidden economy based on secrecy and the forensic exploitation of regulatory loopholes". Prieg's suggestion is to look at practices in the tax havens where the UK Government has jurisdiction, and advocates pushing for changes to international accounting standards.

See page 12 for more on tax avoidance.

Do you have a blog recommendation?
Please send it to *louise.reip@wardour.co.uk*

PUBLICATIONS

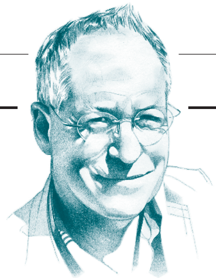
Stay up to date

The August edition of the CISI's *Change – the Regulatory Update* is now available online. Members will find information on many regulatory changes that have just happened or are about to do so for UK firms in the UK, the EU, the US and globally. There is also a new short section on what senior management needs to know.

Developments featured include:

- parliamentary and FSA Board reviews of wholesale conduct regulation
- the responsibility of individual senior managers for controls in their areas
- the coming regulation of shadow banking, such as structured products, repos and hedge funds
- new restrictions on remuneration of UCITS and alternative fund managers
- the approach of the new UK regulators
- continued fallout from enforcement in information-sharing following the case of senior corporate adviser Ian Hannam, fined £450,000 by the FSA
- the mandatory central clearing of over-the-counter derivatives in the EU and US.

View and print out the edition at *cisi.org/regupdate*



CLAY *'MUDLARK'* HARRIS

Tim Archer FCSI, Head of Operations, Redmayne-Bentley

Tim Archer FCSI has never worked more than about 30 miles from where he does now. Although he is no stranger in the City through his active engagement in industry bodies, Tim's career has been spent in Doncaster, Yorkshire, where he grew up, and in Leeds, where he is Head of Operations at Redmayne-Bentley.

"I think there's only one firm with a back office in Leeds – Halifax Stockbrokers – that I haven't worked in," Tim says. But he began in Doncaster, where he left school at 18. "I decided university wasn't for me," he says.

He got his first job, as a trainee office manager at local stockbroker Hanson & Co, when he heard an advert on a radio station. Tim's introduction was in reconciliations, where he was greeted by a three-month backlog of work (many back-office veterans have similar tales about arriving at a new job). His first years were at the height of the initial wave of privatisations.

Hanson became a founding member of National Investment Group, which after many mergers and changes of ownership ended up as a tiny fraction of the DNA of today's Barclays Wealth.

The first takeover was by Capel-Cure Myers, which moved most of NIG's back-office functions to London.

"I stayed in Doncaster handling traded options settlements for the firm," says Tim. That role had a limited life, however. Tim joined former NIG directors who, on the back of recent privatisations, sold the idea of a postal and telephone-based execution-only dealing service to Wise Speke.

He was one of the first employees of the company that became Dealwise. It was sold in 1996 to Skipton Building Society, where it also used the Skipton Share Shop name. He was Head of Settlement for Dealwise and then, as the internet posed questions for the industry, became Head of System Development. "As the firm continued to grow, my role was centred around settlement and how we could improve the process."

> "Redmayne-Bentley has a good reputation, and a family-led ethos"

He has served on many industry groups, including as a member of the Operations Committee of the Association of Private Client Investment Managers and Stockbrokers (APCIMS) since 1999, and its Chair since 2008.

In 2000, Skipton sold Dealwise to TD Waterhouse, which was expanding in the UK. "I lasted about 18 months," says Tim. "The third set of management [of brokers that had been acquired] was surplus to requirements."

Tim spent some time as a consultant, working with Jeff Plowman, Dealwise's former CEO. Plowman Associates was absorbed into Fyshe Horton Finney, an independent Birmingham stockbroker that was considered ripe for a new approach. "The idea was to build on the success of Dealwise," he says.

Tim was Settlements Director, and Fyshe's back office was moved from Birmingham to Leeds. "The markets were not favourable to us," he says, "with the Iraq war and other things." Questions over future development coincided with an approach from Redmayne-Bentley, which hired him as Head of Operations in 2005.

"Within Leeds, Redmayne-Bentley has a good reputation and a family-led ethos," says Tim. Keith Loudon, Chartered FCSI, recognised for lifetime achievement at this year's City of London Wealth Management Awards, remains Senior Partner as he approaches his 80th birthday. His father preceded him, and his son is Managing Partner. It's not unusual for employees at the firm to have ten, 15, or 20 years of service, which is a reason for Tim's confidence in the long-term prospects for the industry in Leeds.

Tim Archer FCSI

Head of Operations, Redmayne-Bentley

Do you have a back-office story?

mudlarklives@hotmail.co.uk

Illustration: Luke Wilson

EDUCATION

Content-sharing deal benefits members

OIC President Gina McFadden

A new agreement signed by the CISI with a Chicago-based industry co-operative gives members access to educational materials about the responsible use of exchange-traded equity options.

The content-sharing deal has been struck by the Institute with the Options Industry Council (OIC), which, for the past 20 years, has been educating investors and financial advisers about the benefits and risks of options.

OIC President Gina McFadden said: "While we have worked with many exchanges around the world, this is OIC's first agreement with an international professional-education organisation."

The content, which covers basic and advanced concepts, strategies, modelling tools and research and thought leadership, will be available on the CISI website from 1 October.

OUTREACH

Head start for A-level candidates

For the eighth year running, the CISI has assisted the Brokerage Citylink charity in its aim to "raise the awareness and aspirations of young people at inner-city schools to the well-paid, sustainable career opportunities available in the City".

The CISI offered free places on its popular one-day Introduction to Financial Markets course to 20 students from inner London. The course, at its City of London office, was delivered by Julia Kirkland, Chartered MCSI.

The candidates, pictured, who have all shown an interest in careers within the financial services industry, have recently completed their A-levels and will start at university this autumn. The course provided them with an overview of the City and its global position, giving them a head start in their degree studies.

Among those who attended was Gus Kadare, who will study for a BSc in Economics at the University of Hull. He said: "I gained an insight into the financial markets and it motivated me to gain qualifications and experience to achieve my goals in the future."

Ask the experts...

Guillaume Menuet
Senior Eurozone Economist, Citi

EUROPEAN FIREWALL

The European Financial Stability Facility (EFSF) was founded by the eurozone member states on 7 June 2010. Its effective lending capacity of €440bn corresponds to the guarantee commitments of its AAA member states. Its mandate is to safeguard financial stability by raising funds in capital markets to provide financial assistance (mainly through loans) to eurozone member states. This, it is hoped, will create a firewall preventing sovereign-debt crises from crossing national borders.

The EFSF is authorised, under the appropriate conditions, to provide loans to states in financial difficulties; intervene in the primary and secondary debt markets; act on the basis of a precautionary programme; and finance recapitalisations of financial institutions through loans to governments.

A permanent successor

On 20 June 2011, eurozone member states finalised the terms of the permanent financial support mechanism, the European Stability Mechanism (ESM). Six months later, eurozone member states decided to bring forward the launch of ESM to July 2012. In March 2012, eurozone countries agreed that the EFSF and ESM would run in parallel until the end of June 2013 to maximise the effectiveness of the firewalls.

The ESM, an intergovernmental organisation under public international law, will take over all the features of the EFSF. It will have an effective lending capacity of €500bn and total subscribed capital of €700bn, of which €80bn will be paid in by eurozone governments. The ESM is now expected to come into force in September 2012, after the ruling of the German Constitutional Court. The mechanism will receive paid-up capital of €32bn in the form of two equal tranches in the remainder of 2012, giving the facility a lending capacity of €200bn by end 2012. The following two tranches of paid-up capital are expected in 2013, with the fifth and final tranche due in the first half of 2014.

Why are the rescue funds necessary?

With the eurozone sovereign-debt crisis intensifying, some eurozone countries faced a significant increase in the yield demanded by investors to finance their funding needs. As the cost of issuance became prohibitive, the Eurogroup of finance ministers decided, in exchange for strict conditionality, to take over financing requirements. This was done first through the extension of bilateral loans, and later by relying on a mechanism of guarantees through the EFSF. In order to limit the increase in their respective debt-to-GDP ratios and protect their sovereign ratings, eurozone member states decided to bring forward the use of the ESM. However, the combined side of the rescue facilities (EFSF+ESM) cannot exceed €500bn.

That €500bn is not sufficient to support fully the larger economies of Spain or Italy if that were necessary. Two solutions can then be envisaged: larger capital contributions from member states towards the rescue facilities; and changing the ESM framework to make it compatible with ECB requirements to obtain a counterparty status for its refinancing operations. However, at its August Governing Council meeting, the ECB promised to address "exceptionally high risk premiums" in sovereign bond markets. It indicated that, under strict conditionality (including a formal request for financial assistance by a eurozone member state from the rescue facilities), it would "undertake outright open-market operations of a size adequate to achieve its objective".

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

citi

CPD

Top US speaker for London event

Charles Taylor

Charles Taylor, Deputy Comptroller, Capital and Regulatory Policy at the US Office of Comptroller of the Currency, will present this year's Sir Thomas Gresham Lecture on 27 September.

He leads a team charged with implementing Basel III and related aspects of the Dodd-Frank Act in the US. Over the past 30 years, he has held a number of national and international positions dealing with public policy and private practice in the financial services industry. These include Head of Operational Risk at the Risk Management Association, where he helped launch ORX, the operational data exchange for large internationally active banks, and Executive Director of the Group of Thirty.

The lecture is part of this autumn's London CPD season. For further information on the programme, turn to page 27 or visit *cisi.org/events*

ONLINE

Annual report available now

CISI members should, by now, have received links to the Institute's 2011/12 Report and Accounts online at *cisi.org/reportandaccounts*

If you have not received the email, or if you would like a hard copy, please contact *reportandaccounts@cisi.org*

QUICK QUIZ

Test your industry knowledge

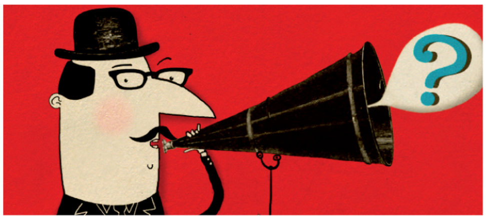


Illustration: Cameron Law

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

☛ Answers are on page 29.

To order CISI elearning products, please call Client Services on ***+44 20 7645 0680*** or visit ***cisi.org***

Q1. Which ONE of the following sectors would be the most likely to be in favour with investors towards the end of a bull market?
A) Cyclical consumer equities ***B)*** Commodities and basic resources ***C)*** Basic industry equities ***D)*** Bonds

Q2. Why would a company NOT use currency swaps?
A) To finance business expansion in another country ***B)*** To convert a floating-rate borrowing in a foreign currency to a fixed-rate in that currency ***C)*** To hedge against movements in exchange rates and interest rates ***D)*** To issue debt securities in a foreign lower-interest currency

Q3. The trustee takes instructions from the unit trust manager for which ONE of the following actions?
A) Creation of units ***B)*** Arrange advertising campaigns ***C)*** Pricing of units ***D)*** Distribution of income

Q4. Bonds denominated in a currency different from that of the financial centre or centres in which they are issued are known as:
A) Junk bonds ***B)*** Convertible bonds ***C)*** Foreign bonds ***D)*** Eurobonds

Feeding fears

With production failing to keep pace with demand, food prices are affected by the slightest change in conditions. Are we on the brink of a global catastrophe?

THE MERELY BEARISH buy gold. The really bearish buy food and bullets. Over the five years since the start of the financial crisis, the best-performing assets, in reverse order, have been oil, gold and corn.

Throw in the clutch of 'safe' government bonds in the top ten – US, UK and German sovereign debt – and you get the idea. Equities, according to a Deutsche Bank league table, have had a dismal five years. The Greek stock market is bottom of the heap, with falls of more than 85%. Even New York's benchmark S&P 500 index, one of the better performers of 2012, has returned just less than 8% since August 2007.

The almost 150% gains for gold – long considered a hedge against financial volatility and, increasingly, the effects of emergency monetary easing by western central banks – need little explanation.

Far more startling are the comparable five-year gains for corn. Even as other commodities have fallen back due to worries about slowing global economic demand, grains have hit a succession of record highs, propelling corn – at the time of going to press – to almost $8 a bushel in the US.

Part of this is down to the weather. With the hottest July in the US since records began, the worst drought in decades in the Midwest's farm belt has shrivelled this year's crops and sent prices for corn, soyabeans and wheat 30%–50% higher since June.

That has added to strains in a market where demand for ethanol, made from corn and used by US refiners to meet environmental specifications for petrol, has already put a floor under prices.

Some of the gains for corn could be short-lived. The drought will pass, as should its effect on crop yields and food costs – at least in rich countries, where people spend less of their income on food than in poor countries.

There is, however, a greater long-term risk here – one that could serve to keep food prices, if not bullets, near the top of that Deutsche league table in five years' time.

Jeremy Grantham, Chief Investment Strategist at US fund manager GMO, sees the recent gains in grain as part of a wider phenomenon dating back to the 2007/08 food crisis that sparked riots in more than 30 countries.

Global grain prices have almost tripled over the past decade. "We are five years into a severe global food crisis that is very unlikely to go away. It will threaten poor countries with increased malnutrition and starvation and even collapse," wrote Grantham in a letter to investors.

He went on: "Resource squabbles and waves of food-induced migration will threaten global stability and global growth. This threat is badly underestimated by almost everybody, and all institutions with the possible exception of some military establishments."

Sobering words. Grantham points to the need for food output to increase by 60%–100% by 2050 to feed at least nine billion people, and deliver more meat to the world's growing middle classes.

Any belief that this target will be met is, he wrote, "substantially optimistic", given falling grain productivity, persistent bad farming practices, water problems and steadily diminishing returns from fertiliser use.

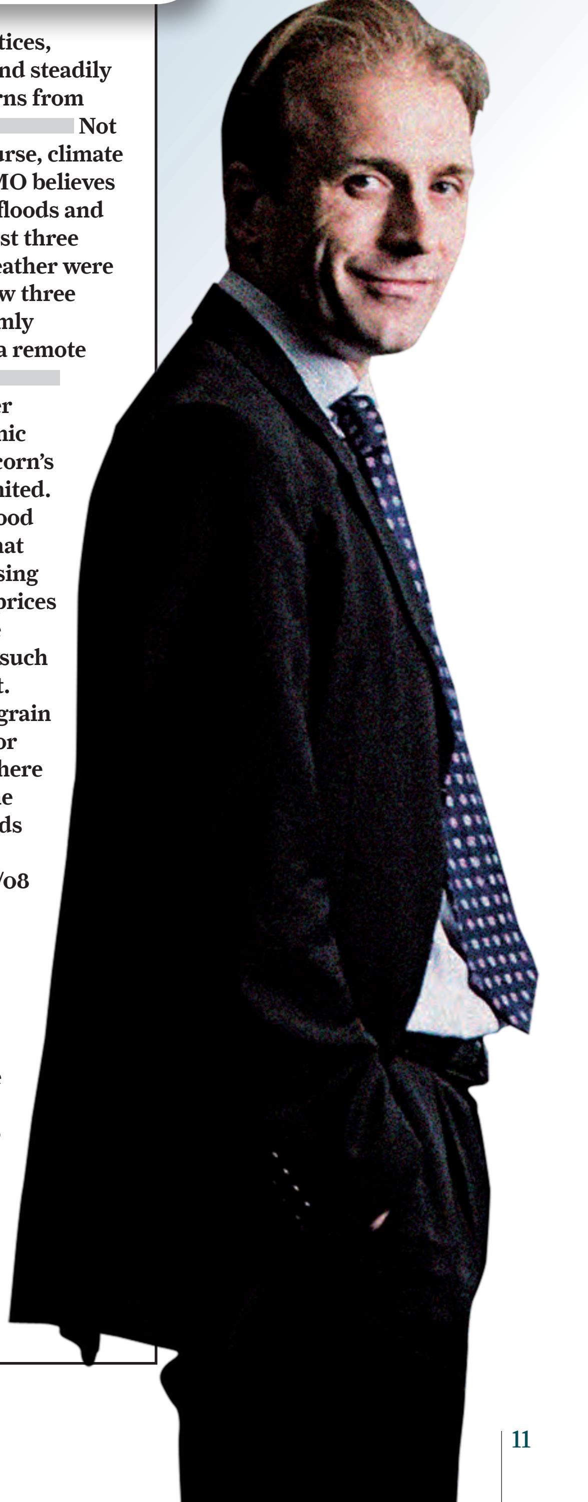
Not to mention, of course, climate change, which GMO believes will lead to more floods and droughts: "The last three years of global weather were so bad that to draw three such years randomly would have been a remote possibility."

For now, the wider social and economic consequences of corn's recent rise are limited. But demand for food is so high – and that demand is increasing so quickly – that prices are reacting more sharply to events such as the US drought.

Were grain prices to double, or even triple, from here – and take rice, the staple for hundreds of millions, with them – then 2007/08 will look benign in comparison.

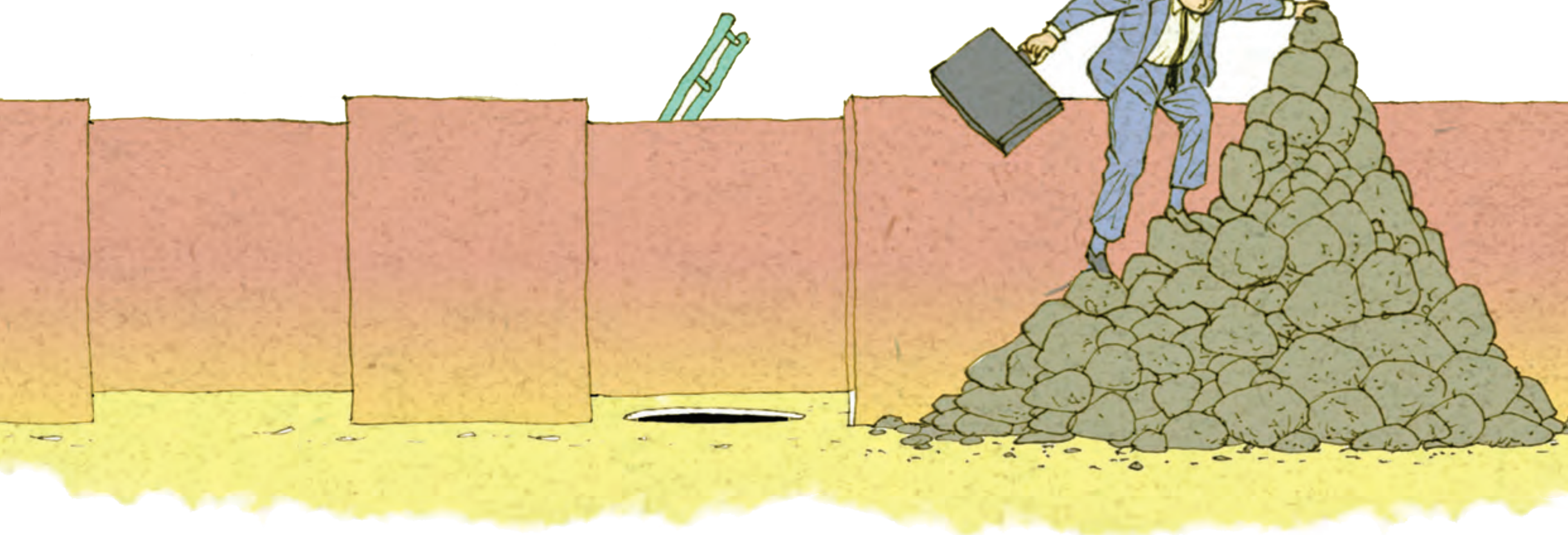
Rising food costs contributed to the turmoil of the Arab Spring. Five years from now, they could lead to upheaval on a far bigger scale. ■

> *"As other commodities have fallen back, grains have hit a succession of record highs"*



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

Public irritation at tax avoidance among the UK rich suggests that investment advisers should consider the moral implications of the structures they recommend. **Piper Terrett** finds that advisers have always had to make tough decisions, and clients are not necessarily happy with the advice



The right path

TAX-AVOIDANCE SCHEMES have hit the headlines following the unusual step taken by the Prime Minister, David Cameron, in criticising comedian Jimmy Carr's involvement in the K2 employment scheme.

The scheme works by transferring the user's salary into a trust based in Jersey, that lends the money back to the user. Since the loan can be considered a liability by the user, it escapes income tax. This enabled the comedian (who has since withdrawn from the scheme) to reportedly pay as little as 1% income tax on £3.3m of his earnings each year.

While commentators noted that Carr was doing nothing illegal, in June an HM Revenue & Customs (HMRC) spokeswoman told *The Times*: "This scheme was already under investigation by HMRC," she said. "If, as is alleged, it depends on the use of loans, it will not work."

Meanwhile, HMRC is trying to close the Icebreaker fund, which enables investors to offset losses against tax. Members of pop group Take That are said to have invested £26m in the fund.

In the current era of austerity, public tolerance for wealthy people who seek to pay less tax, even if the schemes are legal, is at an all-time low, and HMRC is determined to close as many legal loopholes as it can to boost tax receipts. While employment schemes like K2 may be more the domain of tax advisers and accountants, financial advisers who offer certain tax-efficient investments to high-net-worth individuals may also run the risk of attracting unwanted attention from HMRC.

The current climate of animosity towards 'aggressive' tax structures, combined with zeal on the part of HMRC, means that advisers must give some thought to the moral dimension of recommending investments that enjoy favourable tax treatment.

Film risk

An example of schemes that have been targeted by the taxman in recent months is those that use loans and investor capital to invest in new film projects, offsetting the loan interest against income tax. HMRC ruled in April this year that the Eclipse 35 film partnership was an "aggressive" tax-avoidance scheme, and some financial advisers involved in the project may now face compensation claims from clients.

As such, many advisers say that they prefer not to offer such programmes to clients. Some wealth management companies contacted by the *S&IR* for this feature were reluctant to discuss the issue. Others claimed that they do not give tax advice and this is the sole territory of accountants and tax advisers.

John Fletcher, Divisional Director in Financial Planning at Brewin Dolphin, says that the company offers only government-endorsed arrangements that "aren't contentious", such as ISAs, and "straightforward" venture-capital trust and enterprise-investment schemes, adding that most clients are happy to pay tax on the basis that they think it is important to contribute to society.

He points out that the danger of more aggressive schemes is that they can be costly for clients and may not be effective. "Most high-profile people should think twice about doing this," he says. "There's no guarantee that these things actually work. As soon as HMRC is aware of it, it tends to launch an inquiry into it. So there's a danger that you arrange these things and you pay the fees and it doesn't work."

> *"Clients come to you saying: 'This scheme has come to my attention; why didn't you recommend it?'"*

Amanda Davidson, Director of wealth management company Baigrie Davies, adds that if something "sails close to the wind", then the chances are that it is already on HMRC's radar, and that there is more of a risk of it going wrong than of the client missing the boat.

Robert Lockie, Investment Manager at Bloomsbury Wealth, which has used film-partnership programmes in the past and offers enterprise-investment schemes, says the latter are, because of their complexity, suggested only to clients who are highly sophisticated investors, earning £600,000 a year or more, and are not marketed "willy-nilly".

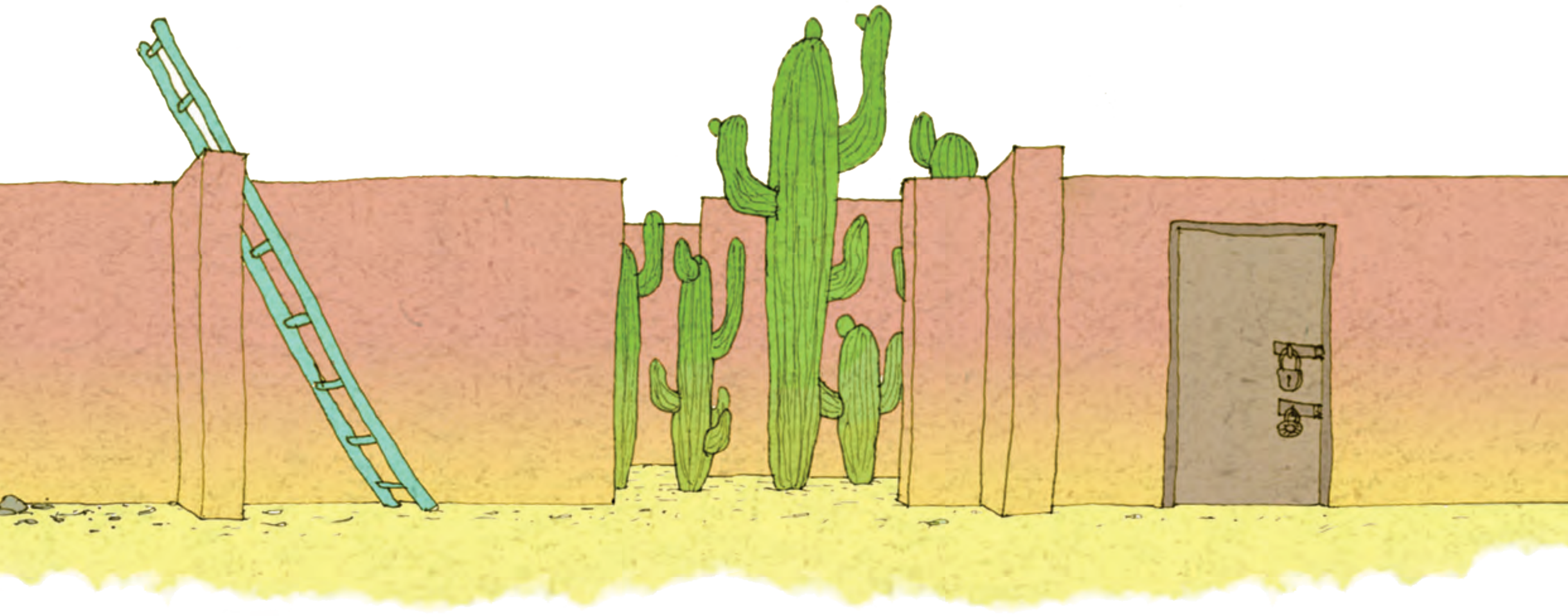


Illustration: Izhar Cohen for Killington Arts

Paying the piper

Some advisers interviewed by the *S&IR* said that negative publicity and likely blocking of tax-avoidance schemes by HMRC would not affect the "vast majority" of advisers, because they do not use them. Many of these schemes are 'artificial', they say, and it is questionable how successfully they can reduce clients' tax bills. Most advisers claim not to recommend them and say their clients do not ask for them. However, some professionals admit that new clients have tried to pressure them into providing more aggressive programmes, and that this can put advisers in a difficult position.

"From my days as a practitioner," says John Whiting, Tax Policy Director at the Chartered Institute of Taxation, "I recall regularly getting clients coming and saying: 'This scheme has come to my attention; why didn't you recommend it?'

"There were occasions when a client came in with a scheme that we'd already looked at and had decided that it wouldn't work." Whiting notes that it tends to be an issue with individuals earning large salaries in City-oriented jobs that pay bonuses. In such cases, he says, the client may be more willing to risk their money because they are "entrepreneurially focused", and may be "irritated to learn that the taxman may take most of their bonus".

In these situations, wary advisers often walk away. "If clients put pressure on us to do these things, then we get rid of the clients," explains Lockie. "We've waved goodbye

An adviser speaks

Bhupinder Anand, Financial Architect at Anand Associates in London, which offers specialist investment programmes for clients earning six-figure salaries, freely admits that some of his projects are "not for the man on the street".

"People aren't always aware of what they can do, and it's about creating opportunities," he says.

These opportunities include investments in "genuine businesses" that, for example, look for sunken treasure or new medications via clinical trials. "Both are very high-risk ventures, but they offer substantial rewards if successful." What's more, Anand notes, they could also net HMRC a substantial tax benefit.

Anand Associates does not invest in "seemingly artificial schemes".

The starting point of any discussion with a client, Anand stresses, is that it is an investment, not a tax-avoidance scheme, but that, to encourage entrepreneurial risk, the Government has a number of tax reliefs available. Some of his clients are invested in Icebreaker, which is the scheme that HMRC is looking to close, and went into the project because they wanted to promote new musical groups and other media ventures.

"It's an entrepreneurial risk people may take," he says. "In many cases it is successful; sometimes it is not. Without Icebreaker, for example, certain artists would not have been launched, certain albums not released and people in the industry not employed." The company did, however, decide to steer clear of K2. "We saw it and didn't like it, but that doesn't mean it doesn't work," he says.

However, Anand believes that the press has missed the point in the tax-avoidance row. "The whole basis of this discussion [in the media] is wrong," he says. "People are doing this because they want to invest and make money on a profitable venture [not simply avoid tax]." He uses the analogy of people who are throwing a party and take a trip to France to buy alcohol to avoid paying VAT. "Is this the same as tax evasion?" he asks. "If you bring back what you're allowed to bring back, then you're doing what you're allowed to do."

Anand is concerned by the disconnect between the Government's apparent encouragement of entrepreneurial risk on one hand and HMRC's crackdown on tax loopholes on the other, with the film schemes "a classic point". He points out that the film industry lobbied the Government to support it, and the Department for Culture, Media and Sport encouraged people to take the risk of investing. "You've got two arms of Government that are fighting each other, and the individual is caught in the middle," he says. "It's stifling entrepreneurial flair."

to several tens of thousands of pounds' worth of fees a year because [the client will] be trouble. If we're not on the same page, and they're looking for an edge-of-the-seat type thing, they'll never be happy." In these situations, Lockie either refers the client to another specialist or informs them that the scheme they are pushing for is unlikely to work.

In the most extreme cases, it is possible that advisers could face legal action from disgruntled clients if they fail to offer tax-avoidance schemes. However, most of the professionals the *S&IR* spoke to were more concerned about the possibility of such schemes failing and the likelihood, as has been seen in the case of the Eclipse 35 film partnership, of lawsuits from clients hit by unexpected tax bills from HMRC.

> **"Avoidance is entirely legal, and it seems unfair to heap this opprobrium on people for avoiding tax"**

Some offshore jurisdictions, meanwhile, are looking to distance themselves from 'aggressive' tax planning. Following the Jimmy Carr revelations, Jersey Chief Minister Ian Gorst said: "We will continue to be clear that Jersey does not need, nor does it wish to be associated with, aggressive tax-planning schemes of the kind to which recent publicity has been given in the UK press."

Aside from the obvious legal standpoint, advisers can find themselves weighing up the moral implications of such a deal, and how comfortable they may feel with it. Amanda Davidson notes that there are always instances in the life of an adviser where he or she faces a dilemma and refuses to carry out the transaction or take on the client because of it.

The current media focus on aggressive tax planning may have raised awareness of these issues in advisers' minds, but Whiting says that this has been an issue for as long as he has been in practice. "Everybody has to work out their own rules of engagement, the risks and how they approach them," he says.

However, some financial planners are also angry at what they feel is unfair scrutiny of high-net-worth individuals who invest in enterprise investment schemes (enabling smaller, higher-risk companies to raise finance) and legal offshore investments, such as international bonds.

"Nobody loses votes by having a go at rich people – especially if they're bankers, or comedians who then look like hypocrites," argues Lockie. "Avoidance is entirely legal and it seems unfair to heap this opprobrium on people for avoiding tax."

Looking at what you can get out of the tax system is merely good tax planning, he says. In many cases, investors are exploiting these loopholes legally, and, if the Government wishes to close them down, argue many financial advisers, then it must change the law. ■

Tax-avoidance statistics

HM Treasury figures released in April 2012 for the financial year 2010/11 suggest that almost 1,000 UK taxpayers earning more than £1m a year pay less than 30% of their income in tax.

Of the 200 taxpayers earning more than £10m a year, 12 are thought to pay less than 10% in tax.

10,000 UK taxpayers earn between £1m and £5m; 10% of these pay between 30% and 40% in tax; 5% pay between 20% and 30%; and 3% pay less than 10%.

Treasury figures estimate that 400 taxpayers earn £5m to £10m a year, and that 20 of these – or 5% – pay less than 20% in tax.

Of those earning £250,000 to £500,000, 27% are thought to pay tax of less than 40%.

Critics point out that these figures, which they claim were released by the Treasury for political reasons following criticism of the Government's plan to cap tax relief on charitable donations, do not show that these individuals may have paid other taxes besides income tax on their earnings, such as corporation tax or capital gains.

Mixed MESSAGES

Following the financial crisis, the FSA was bound to increase its scrutiny of executives deemed to have 'significant influence' over the management of financial firms. In our second feature examining corporate governance, **Jennifer Bollen** asks whether delays and uncertainty about the scope of scrutiny are limiting the benefits of the new regime

ON 16 JULY, Andrew Tyrie MP, Chairman of the Commons Treasury Select Committee, asked FSA Chairman Lord Turner why the regulator had cleared the appointment of Jerry Del Messier as Barclays' Chief Operating Officer just days before the FSA published its damning judgment on the bank's dishonest LIBOR submissions. This seriously implicated Del Messier and would later lead to his resignation. With evidence of woeful internal controls and compliance practice, wondered Tyrie, how could Del Messier be considered eligible for this promotion?

The answer, Lord Turner told an incredulous Tyrie, was that Del Messier's new role involved no change in significant influence. "If someone is a senior banker, they have the relevant experience," a spokesman for the FSA later confirmed to the *S&IR*.

The FSA defines a significant influence function (SIF) as any position deemed so crucial that it could have a significant impact on the institution's activities (SIF holders' approval falls within the FSA's approved-persons process). Individuals holding these roles can be held personally liable for their failings at a firm.

The updated SIF regime, which began in 2008, was revised at the end of 2010, when the FSA introduced a more detailed framework of controlled functions, making clearer the exact role an individual performs within a firm and increasing the FSA's ability to vet and track individuals as they move roles.

"It was difficult for regulators to prove the culpability of specific individuals for major failures – a result of 'group think' and the woefully poor level of challenge by colleagues and non-executive directors in the past," says Graeme Ashley-Fenn, a former director at the FSA and currently Managing Director of Gratia Consultancy.

But many believe that the FSA failed to carry through greater scrutiny of SIF roles. Karen Anderson, a partner at law firm Herbert Smith, identifies a mismatch between the policy and implementation of SIF compliance by

the FSA's supervision team. A former senior executive at a financial consultancy, who did not wish to be named, told the *S&IR* that the FSA had "talked a tough talk", without fully adhering to proposed changes. Certainly, the FSA backed off from its initial position. In 2009, the regulator said that it would interview all candidates for SIF roles, and initial interviews were extensive and comprehensive. By the following year, however, the FSA had shifted the focus onto candidates applying for roles in the larger, more complex or risky firms (while reserving the right to interview any SIF candidate). These included chairmen, chief executives, chief risk officers, and non-executives whose responsibilities included chairing audit, risk or remuneration committees. In practice, FSA officials cast their net wider. Nervous of being seen to not do a job, supervision teams often interviewed executives well below the SIF level. Hector Sants acknowledged this in April, in his final speech as FSA Chief Executive. "There may have been cases where supervisors have been interviewing more individuals than our approach prescribes. However, I think this is understandable, given that we are still in a crisis environment," he said. Sants also raised concerns about staff competence. "If the [SIF] process is to have credibility, it must be conducted by experienced and credible regulators," he said. "This has not always been the case in the past, when personnel constraints led to inexperienced staff handling the process. The FSA is now addressing these issues and I am confident that it will achieve the right balance in the future." He must hope that the Government doesn't see the restructuring of the FSA as an opportunity to cut staff wage bills. The new Prudential Regulation Authority will focus on interviewing for key roles, while the Financial Conduct Authority (FCA) will lead the process for all other authorised roles.

> ***"It was difficult for regulators to prove the culpability of specific individuals for major failures"***

Beyond UK shores

The FSA has also pulled back from vetting SIF holders based outside the UK. It had aimed to create a new category of SIF known as a 'parent-entity SIF', enabling it to include senior executives based at companies owning UK institutions, such as the chief executives of US banks. It implemented these rules for corporate structures, but said that technical problems with its online application system last year meant that it was unable to launch the regime for limited-liability partnership structures. The former senior executive contacted by the *S&IR* flags the difficulties the FSA had in explaining the SIF regime to US firms: "Americans really don't understand this regime and the personal responsibility associated with it. I never got the Americans to understand that I was personally accountable for what happened: it was my reputation at stake if I got into trouble with the FSA."

Evaluation

Certainly, irregular implementation by the FSA has muddied the waters about who qualifies for SIF roles, and how and by whom they will be vetted. Some believe that this has been enough to hobble the reforms entirely. A lawyer who works in the regulation practice of a major firm says that the new regime had yet to materially improve corporate governance. "You could look around and think that this isn't really doing everything it should," they said. "Are we any better now than five or six years ago?" But it is hard to argue that the greater scrutiny is not having an impact (see 'The pressure of scrutiny', left). Ashley-Fenn concludes that the SIF process is working and will improve further as the FSA's successors come into play. He concludes: "Clearly, there is substantial work still required to address certain firms – we must not forget there are firms with excellent cultures in financial services – and the new FCA should quickly build upon the initial work the FSA has developed in this area and be far braver in taking appropriate action." ■

The pressure of scrutiny

Despite the stuttering process of implementation, greater scrutiny by the FSA of SIF roles is having an impact.

In April, Hector Sants, the (now former) Chief Executive of the FSA, announced that, over the past two years, it had considered 653 applications to SIF roles, following one or more SIF interviews. Of these, 48 were withdrawn – 39 of which followed serious concerns identified by the FSA interview panel. Those at the top of the profession may be concerned by the greater scrutiny of high office. In July, *The Daily Telegraph* reported that Rich Ricci, head of Barclays Capital, told friends that he did not want to replace former Chief Executive Bob Diamond after the latter's resignation over the LIBOR scandal.

Non-executive directors

Perhaps the toughest element of the new SIF regime is the treatment of non-executive directors.

Firms are uncertain about the level of specialist skills required by the regulator, amid concerns that blanket requirements may inadvertently weaken boardroom diversity (a concern flagged by the *S&IR* in May 2010 in the City View column 'Better boards').

Andrew Lowenthal, a partner at search firm Egon Zehnder International, says: "A lot of people who were senior executives from outside financial services have now chosen not to be on financial services boards because of the reputational risk. Boards have become much narrower in their focus. If you have a board consisting only of technical experts, you lose a lot of diversity."

The FSA may be coming round to this concern. In April, Hector Sants said: "A diverse board encourages creativity and is less likely to demonstrate 'group think' and herd mentality."

Graeme Ashley-Fenn of Gratia Consultancy says that boards with a significant number of non-executives with experience in finance had room for those from other sectors, and such outsiders can be more challenging and thus may prove valuable.

SIFs, according to Ashley-Fenn, must now be "far braver in asking challenging questions and standing up for what is right and ethical".

Hugo Cox talks to Clive Jones, Chairman of the Jersey Financial Services Commission

Regular ISLANDER

THE REMIT OF the Jersey Financial Services Commission (JFSC) is limited to the regulation of financial services firms on the island – it has no role in framing or policing tax rules. But it has been hard for it to avoid the debate about tax-efficient investment and income structures, following criticism in June of comedian Jimmy Carr's avoidance of UK income tax through the K2 structure, which was administered from Jersey (turn to page 12 for more on the tax-avoidance debate). John Harris, Director General of the JFSC, rejected criticism by those who suggest that opacity provided by the island's offshore trust industry encouraged international tax evasion. The trust structures offered on Jersey, he told *The Guardian*, provided a "legitimate degree of confidentiality, no different from bank accounts". The 180 companies that administer offshore trusts in Jersey are tightly regulated, notes Clive Jones, JFSC Chairman. The regulator requires of them that they know the source of funds going into a trust, the person or people responsible for its establishment and the beneficiaries, as well as meeting further strict anti-money laundering criteria. These criteria, designed to foil terrorist financing, are among several areas where offshore jurisdictions have come under increasing scrutiny from governments and international bodies. An increasingly important part of the job for Jones, therefore, is liaising with these bodies to ensure that the offshore jurisdiction is clearly viewed as being compliant in this fast-changing area. Closer to home, the recent proposals of the UK's Vickers commission, designed to separate banks' investment and retail operations in the wake of costly taxpayer bailouts, threatened to have a major impact on how financial firms were regulated in Jersey. "Vickers as it was first proposed would have required a radical change in how we look at the banks that we license," explains Jones. The reason for this requires some explanation. The

> ***"It may be that we have to take a different approach to how we license banks"***

JFSC's bank-licensing policy requires Jersey branches to be part of a bank that is systemically important in its home country. The largest banks in Jersey are subsidiaries of the British clearing banks, notably Barclays, HSBC, Lloyds TSB and RBS. These use deposits gathered from offshore clients to provide liquidity to the London parent bank. But Vickers proposes a ring-fence around the big banks, restricting them from accepting deposits from, or from having branches in, outside the European Economic Area (EEA). So the Jersey branches would have to sit outside the ring-fence, meaning that they would cease to be part of a systemically important bank in their home country.

Offshore exemptions

A solution would be some sort of exemption: the UK Government has floated this idea for smaller banks, but there is no prospect of extending it to larger banks. In the meantime, the 'UK' offshore jurisdictions – Jersey, Guernsey and the Isle of Man – are lobbying hard. "All three Crown Dependencies are in dialogue with the banks and with HM Treasury to see if, for example, we can be regarded as 'within the EEA' for the purpose of this exercise," says Jones. This issue will become even more pressing if the principles of Vickers are adopted beyond the UK. The EU Commissioner in charge of regulation, Michel Barnier, has shown himself open to the prospect of a European proposal to rival that of the Vickers commission. "In the future, there may be similar requirements made by other countries or blocs," notes Jones. "It may be that we have to take a different approach to how we license banks." "One example for Jersey might be different types of bank licences depending on whether banks need to participate in the depositor-protection scheme," he adds. The island currently operates

Travelling man

As a young graduate, Clive Jones was the beneficiary of a short, intensive introduction to the City that whetted his appetite for the sector. After a postgraduate diploma in linguistics at Manchester, he decided that academia was not for him. Moving to London, he attended a three-day course that featured visits to several London institutions and talks by grandees including Sir Cyril Kleinwort, Chairman of the Kleinwort Benson Group, and the then Chief General Manager of Lloyd's of London. "That was a real eye-opener for me," says Jones. "I thought, 'there's something going on here'."

He applied for graduate posts and, to the surprise of his family, was offered jobs by several international banks and the Bank of England. "My parents, in particular, were amused, since they knew that my aptitude for arithmetic bordered on the autistic," he says. He took the second-highest (by £50 per year) offer, with Citi, which was then called the First National City Bank of New York, in the corporate-lending department.

With record-high inflation and government-mandated wage freezes in Britain in the early 1970s, it seemed like a sensible time to ask for a foreign placement, and in 1976 Jones found himself in South Korea. This was not quite the move he had hoped for, but it proved the making of the young man's career.

"The country was developing with such force and direction that you had only to work hard and you would do well," he says.

He worked on joint ventures between western firms and a number of leading local firms, including Samsung, which was then a relatively small, family-run operation. After four years in South Korea, and now with two young children, it was time to move on to Australia, where he again enjoyed exposure to large deals, including the creation of Elders IXL, which subsequently became the Foster's Group.

At the time, interaction between bankers in the US and the UK was not as common as it is now; there were very few UK bank offices in Korea, for example, and he was surrounded by Americans, a situation he relished. "Working with Americans was relatively unusual for most British people in the early 1970s. Some people struggled to adapt culturally, but I found their 'work-hard' ethos inspiring," he notes.

When he decided to move into private banking, after a stint as the head of the corporate bank in Athens, his career took him to Switzerland and by 1996 he was running the Citi operation in Jersey. He retired from Citi in 2007 and was appointed a Commissioner at the JFSC, rising to Chairman two years later.

Jersey is facing considerable economic challenges today, with unemployment high and the economy shrinking. Running the regulator is not the easiest job at such a time, Jones notes. "At this point in the business cycle," he says, "there is a fair degree of blaming the referee when the game is not going your way, and we have to live with that."

But he is motivated by the central role of his work in the economy of the island. "The work of the Commission is important indirectly to everyone in Jersey," he says, "so it's important to me to help create conditions that work well."

a scheme that means that personal depositors are covered for the first £50,000 of their savings with any one banking group.

Jones notes that close co-operation with European bodies such as the European Securities and Markets Authority, the Paris-based regulator, has proved important in the past. This was most notable during the implementation of the Alternative Investment Fund Managers Directive, affecting the island's hedge funds, which form a large chunk of the £196bn of funds under administration on Jersey.

When it comes to national regulators, much of Jones's work is focused on building up strong bilateral relations. The most recent example is a Memorandum of Understanding signed with the Reserve Bank of India in July. "While these don't radically alter the working relationship between the two regulators, they communicate to market participants in that country that the requirements for doing business in Jersey are clear," he says.

Since the financial crisis, the high volume and pace of international regulation has required all offshore financial centres to develop an effective response. This has led some on the island to complain that increased compliance costs are making it harder to do business. In April, David Warr, President of the Jersey Chamber of Commerce, urged the JFSC to take a more "pragmatic" approach to prevent business being lost to competing jurisdictions. The Jersey economy, which is dominated by financial services – the sector employed about a quarter of working-age adults last year – declined by 5% in real terms in 2010. Unemployment – 4.7% in the 2011 census – is at historically high levels.

Evidence of these increased compliance costs is provided by one mid-sized trust firm on the island with about 50 employees (it wished not to be named) that claims it has had to increase staff numbers by half just to meet the growing regulatory demands, including more frequent on-site regulatory visits. The proportion of the regulator's on-site visits made to trust companies increased from 16% (39 of 248 visits) in 2010 to 23% (47 of 208 visits) last year.

But more costly regulatory compliance for local firms is not a picture that Jones recognises. "The example you just gave me is something that I find close to astonishing," he says.

The regulator's 'six eyes' policy – a reference to the requirement at small firms to have at least three highly qualified staff among senior management – has remained constant for several years. "I struggle to see why companies must hire more," Jones says, noting that the JFSC offers flexibility for smaller firms, such as the option to combine roles responsible for money-laundering reporting and money-laundering compliance.

With the governments of major developed countries continuing to focus on both policy and enforcement in offshore jurisdictions, the regulatory burden on Jersey firms is unlikely to get lighter. As Chairman of a small regulator in a non-EU jurisdiction, Jones has had to work hard to gain the respect and credibility of JFSC's larger peers. This remains a priority that firms across the major industry segments – banks, trust firms and investment managers – will have to keep in sight. ■

CV snapshot

2011 – Chartered Director, Institute of Directors
2009 – Chairman, Jersey Financial Services Commission
1996 – Country Officer, Citigroup, Channel Islands
1989 – Corporate Finance Group, Private Bank, Citigroup, Switzerland
1984 – Corporate Bank Head, Citibank, Athens, Greece
1980 – Country Credit Officer, Citicorp, Australia
1976 – World Corporation Group Head, Korea
1970 – Graduate Trainee, First National City Bank of New York, London
1969 – Postgraduate Diploma in General Linguistics, University of Manchester

Sold out

The misselling of interest-rate swaps to small businesses has led to compensation claims against the UK's biggest banks. **Jennifer Bollen** looks at how and why the banks sold exotic products that few – even in the City – understood

IN JANUARY NEXT year, Gary Hartland, Director of a family-run care homes operator in Wolverhampton, will take UK bank Barclays to court in proceedings overseen – unusually – by a judge who regularly presides over murder cases. He is "used to making big decisions", Hartland surmises. Hartland's claim is that his lender forcibly missold him two complex derivatives products that made him liable for tens of millions of pounds. He alleges that Barclays forced him to buy the products – known as interest-rate swaps – as a condition of the loans that he also took out from Barclays to finance a portfolio of care homes. In theory, interest-rate swaps enable borrowers to hedge their risk against rising interest rates by allowing them to fix the rate with their bank. Typically, a customer will 'swap' a variable rate of interest for a fixed rate calculated by the bank. However, Hartland, whose Guardian Care Homes business runs 30 sites, claims that the loan maturities offered on the loans he held with the bank were five and ten years, while the lifetime of each of the swaps was 20 years. He faced huge cancellation fees when interest rates dropped to historic lows in the wake of the credit crisis, and was therefore stuck paying a much higher rate on his borrowings. He describes the transaction with Barclays as "inducement and misrepresentation". "I didn't want [the swap] in the first place. When interest rates went down, I knew I wouldn't benefit from the fall, but I didn't appreciate the massive break costs on these swaps," he says. Barclays is fiercely defending the claim on the basis that it believes the allegations have no merit. It says that the business had a suite of advisers including Rothschild. Guardian Care Homes says that Rothschild was appointed to advise only on a potential sale of the company. Furthermore, Barclays says that the company defaulted on almost £70m of loans, a default Hartland says came about only because his swap break costs were factored into the loan's covenant. The bank says: "This is a significant business, which owes Barclays £70m. We do not believe that any aspect of the case has merit, and are defending it." Hartland's story is one of hundreds that have come to light since some small and medium-sized businesses – from campsites to chicken farmers – started finding themselves in severe difficulties because of the costs incurred from buying such swaps. The FSA estimates that about 28,000 interest-rate swaps were sold between 2001 and June this year. In June, the FSA reached an agreement with Barclays, HSBC, Lloyds Banking Group and the Royal Bank of Scotland to provide appropriate redress where misselling has occurred (other banks have since joined the scheme). Redress will be limited to non-sophisticated customers. (The FSA defines sophisticated customers as those that meet at least two of the following criteria: those that had a turnover of more than £6.5m, a balance-sheet total of more than £3.26m or more than 50 employees in the year the swap was taken out.)

The verdict

During the FSA's investigation into the misselling allegations, it found that the products sold varied in complexity. They ranged from comparatively simple 'caps' that fixed an upper limit to the interest rate on a loan, to more complex derivatives such as 'structured collars', which fixed interest rates within a band but introduced a degree of interest-rate speculation (see 'Interest-rate swaps', left, for more information). It found "poor sales practices", including limited disclosure of exit costs, failure to ascertain customers' understanding of risk, non-advised sales straying into advice and 'over-hedging' – where the amounts or duration did not match the underlying loans (one of Hartland's claims). The FSA said that rewards and incentives were a driver of these practices. Stuart Brothers, founder of law firm SRB Legal and a specialist in interest-rate swaps cases, says that his borrower clients include the owner of a Cornish campsite who would have found it very difficult to understand a derivative. "I've had people who run hotels, nursing homes and buy-to-let portfolios being sold complex products," he says. There is much

Interest-rate swaps

In its purest form, an interest-rate swap is a relatively simple instrument, according to Simon Firth, a partner at law firm Linklaters. But since the market for these derivatives has grown significantly since 2005, they have taken on a wide variety of forms.

The most common of these products is the 'plain vanilla swap'. According to the FSA's website, this allows the customer to fix their interest rate, and involves swapping their liability – typically, a variable interest payment – for the base rate or LIBOR, depending on the underlying facility. In effect, it is insurance against increasing interest rates.

As the market for interest-rate swaps grew, exotic instruments emerged. Their names included 'basis swap then geared collar', 'swap with embedded digital cap (dual-rate swap)' and 'value collar and trigger swap'. Most of these more complex products constrain the range in which a variable rate can vary.

A product known as a structured collar is one of the simple examples. The FSA says that structured collars enable customers to limit interest-rate fluctuations to a range. However, while the ceiling functions in a similar way, the floor is more complex and customers can end up paying increased interest rates if the base rate falls below the floor. They require a more difficult assessment of the benefits and risks.

Fees

Firth says that, compared with other derivative products, banks earn small profits from the more standard interest-rate swaps because "it's quite a competitive market".

It is difficult to illustrate the typical profits available from the more exotic products – partly because there is a vast array of swaps on the market. Certainly, one banking executive says that there are much higher profits to be made from selling exotic swaps.

In many cases, the bank receives revenues from break fees. When the customer finds that they have committed to a high fixed rate, and the base rate has dropped since they took out the swap, they pay a significant penalty if they decide to terminate it early (which the bank may need to pass on to its counterparty).

criticism that the swaps were inappropriate for small businesses, as well as allegations that even the relationship managers liaising with the customers failed to understand how they worked. [redacted] Speaking to the Treasury Select Committee in May, ahead of the FSA's redress agreement, the soon-to-be Barclays chairman Sir David Walker said: "The regulator should have never allowed access to the retail [and small- and medium-enterprise (SME)] market for these complicated products." Sir David said that banks' senior managers had been too easily persuaded by their staff to sell the products "on which the margins were fat".

Did anyone understand?

It is not only SMEs that were bewildered by the interest-rate swaps: the advisers that they relied upon to decode them were often similarly at sea, because many of the advisers with good knowledge of the more complex products principally serve the UK's larger companies. [redacted] Meanwhile, the swaps teams at the banks had a limited grasp of the more complex products they were selling, according to a senior executive at a UK bank. "Very few salesmen understand these products," he says. [redacted] Christopher Bond, Chartered MCSI, Senior Adviser, Regulation, at the Chartered Institute for Securities & Investment, says: "Even if a bank had been very patient in its explanation, I doubt that some smaller borrowers without an experienced finance director or adviser would have understood what the consequences could be if interest rates performed in an unexpected manner – as they did." [redacted] A lawyer who specialises in helping borrowers in interest-rate swaps cases, and who has reviewed about 430 claims in two years, says that relationship managers were driven by targets and champagne prizes. "In order to hit these targets," he says, "they had to stiff the business that they were selling to."

Foolishness, not greed

It is easy to believe that bank salesmen were cynical about meeting customers' needs with these products, driven only by the desire for a high 'penetration rate' compared with other bank branches, when providing credit. But it is possible that the relationship managers who sold these products believed that it was in the borrower's interests to have protection from the risk of increased interest rates – would the business be able to afford to pay them? The fixed interest rate also gave the borrower certainty to plan their investment against. [redacted] This is more difficult to explain for more complex or exotic products. One banking executive denies that greed drove the evolution of these, claiming that they were the product of constant innovation led by market competition. [redacted] "Is there a need for the [range of exotic] products?" he asks. "No. But it's not a way to get cash out of clients. It's the way capitalism works. We continually innovate to give ourselves an edge. The first person who introduces a product has an edge, so that person makes a lot of money selling it. Once the competition catches up, to carry on making your margin you have to keep adding products to it."

Buyer beware?

Certainly, the banks had a duty to explain what they were selling. [redacted] "If I buy a secondhand car, I will read the small print. I should check everything," says the banking executive. "But it is incumbent on the banker to make sure that the customer understands everything. If I'm a good guy and I've got some banking principles, I shouldn't just rely on that." [redacted] But many at the banks will point out that the FSA appears to absolve their clients of any equivalent duty to understand what they were buying. Bond believes that customers must also assume some responsibility. [redacted] "There is a responsibility to treat customers fairly," he says. "This is a duty of the bank to offer only what is appropriate, but the borrower should take responsibility for what they are capable of understanding. The banks were dealing with businesspeople – not consumers."

> ***"It is incumbent on the banker to make sure that the customer understands everything"***

What now?

The FSA has taken the unusual step of requiring the banks to deal with claims rather than investigating them itself, and the Financial Ombudsman's jurisdiction is limited where businesses are involved. [redacted] However, the FSA has laid down some ground rules, such as the presumption that 'non-sophisticated businesses' would have found it difficult to understand complex swaps. There will also be an external review of each bank decision. Larger, more sophisticated borrowers will need to go to court if they cannot agree with the bank. [redacted] The amount of compensation payable is unclear at present, so banks are not yet providing for it in their accounts in the way that they have for payment protection insurance misselling. In the longer term, the swaps misselling has contributed to the FSA's current strategic review of whether there should be conduct of business rules for wholesale as there are for retail, and it is planning a paper on this in the coming months. [redacted] It is also likely to feature strongly in the investigation and conclusions of the Tyrie commission, which is currently investigating the culture of banking in the UK. ■

The development of international financial reporting standards has been key to improving transparency in markets worldwide. **Veronica Poole** explains

Reporting STANDARDS

OVER THE PAST DECADE, the information underpinning global capital markets has been transformed. Before the advent of International Financial Reporting Standards (IFRS), the available accounting information was disparate, differing from country to country, subject to different domestic accounting rules, and a long way from providing the consistent, comparable and transparent information that investors required for the capital markets to operate efficiently.

Now we look at a world where, with the notable exception of the US and a handful of others, the same core standards are applied. This is an important change. And the effect that this transformation is having is, inevitably, far-reaching.

Before the International Accounting Standards Board (IASB) was set up by securities regulators and accounting bodies 11 years ago, financial reporting information came in all shapes and sizes. Complex reconciliation processes had to be carried out to try to reach a rough-and-ready understanding of what an organisation's financial results in one country represented, in an accounting language that investors or competitors in another country could understand. International accounting standards did exist. They were written by the IASB's predecessor body, the International Accounting Standards Committee but, like Esperanto, they were used by very few.

The great impetus for IFRS came some ten years ago, when the European Union (EU) decided that its internal efforts to create financial reporting harmony within European countries had been ineffective, and it handed the responsibility over to the newly established IASB. Since 2005, all listed companies within the EU have had to report their results using IFRS. This was achieved, though not without a degree of difficulty – both political and technical. But, in the past seven years, the system has bedded in and companies, standards-setters, auditors and regulators have developed a growing critical mass of expertise and experience. Meanwhile, the rest of the world has steadily come on board, with about 120 countries now mandating the use of IFRS.

The biggest challenge has been the US. The long-established system of US Generally Accepted Accounting Principles, known as US GAAP, written by the US Financial Accounting Standards Board (FASB) and regulated by the main US securities-market regulator, the Securities and Exchange Commission (SEC), has been seen as the impregnable bulwark of the US market. Nevertheless, a convergence programme was begun, and later endorsed by, the G20 to try to whittle away the main differences between IFRS and US GAAP. And the SEC embarked on a process of assessing the validity of IFRS and the competence of the IASB, with a view to reaching a decision about whether to take up IFRS as its primary system of financial reporting. This has been a long and complicated process and no final decision has yet been taken.

But, in the rest of the world, progress has continued. Currently, two-thirds of the countries in the G20 require their domestic listed companies to use IFRS and almost half of the global Fortune 500 companies now report using the standards. Brazil adopted them successfully between 2009 and 2011. Russia, which sees IFRS as essential if it is to achieve its goal of creating an international financial centre in Moscow, adopted IFRS from 1 January 2012. China has come on board. India continues to explore how best to incorporate IFRS into its financial reporting system, but does intend to do so. Japan already permits its large,

globally oriented companies to prepare their financials using IFRS, and continues to examine how best to extend the standards to all Japanese-listed companies. Underlying and powering this is the understanding that accounting and the credibility of the financial reporting information it produces is a vital part of any economic infrastructure. In the words of Sir David Tweedie, IASB Chairman during its first decade, "The job of accounting is to keep capitalism honest." It is this point that led the G20 group of nations to call, after the 2008 economic crisis, for a harmonised global financial reporting language as a high priority. Capital markets are global and require a global infrastructure if they are to work. In a statement after its meeting in London in 2009, the G20 agreed to "establish the much greater consistency and systematic co-operation between countries, and the framework of internationally agreed high standards, that a global financial system requires". In its statement a year later, the G20 added further weight to those views. It "re-emphasised the importance we place on achieving a single set of high-quality improved global accounting standards".

However, building consensus to bring about global standards is not an easy task. First, there are sovereign issues to deal with. Ceding control of setting standards – standards that would apply directly in a jurisdiction – to an independent body based in London is not generally palatable, so most jurisdictions introduced a form of endorsement or incorporation into their local laws. The IASB works with local bodies to achieve buy-in of its standards, but the process of endorsement raises the possibility of alterations to its work. Yet the only way accounting standards can be effective is if they are broadly similar and comparable, and where there are no surprises created at a late stage in the endorsement process.

Setting global standards is only the first step. The second is enforcement, but market regulation is fragmented. It is one thing to have high-quality financial reporting standards, but to derive the maximum benefit from those global standards, financial markets need good and consistent enforcement. This is where the International Organization of Securities Commissions (IOSCO), the global umbrella body for securities-markets regulators, comes in. IOSCO is a founding member of the IASB, and its encouragement of its members to use IFRS for cross-border listings gave IFRS its first endorsement. Michel Prada, Chairman of the IFRS Foundation Trustees, addressing IOSCO's annual conference in Beijing in May 2012, challenged the group to work proactively with the IASB throughout the standards-setting process, and to share experiences of implementation and enforcement with the IASB so that IFRS could be improved as necessary. As a former securities regulator, Prada knew his audience, and his message to it was clear: IOSCO, as a fellow G20 delivery agency, needs to play its part if the benefits of IFRS are to be realised in all markets. At a standards-setting level, the IASB has completed much of the convergence programme that the G20 laid down in its response to the financial crisis, with new standards for consolidation, disclosure of off-balance sheet transactions and a standard on 'how to do' fair value measurement accomplished. These have led, or will lead to, for example, the tightening of off-balance-sheet transactions and improvements in consistency of approach to fair value measurement. Another joint standard, on revenue recognition, is nearing completion.

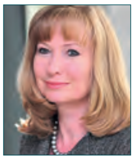
The rest of the world has steadily come on board, with about 120 countries now mandating the use of IFRS

A few challenges remain, like leasing, insurance, a new impairment model for financial instruments and hedge accounting. Some have hit stormy waters, with the IASB and the FASB not agreeing on certain key points, such as insurance and impairment of financial instruments. On others, the IASB has set out to complete the work independently of the FASB. For example, the measures to reduce the complexity involved in hedge accounting, which should see a final standard appear late in the year, will be the IASB's own effort, with the FASB looking at the merits of the proposals only when they are published.

There has been huge progress in IFRS, and the goal of greater consistency, comparability and transparency in financial reporting is well on its way to being achieved. There are still critics, but overall there is no doubt that the transformation brought about by IFRS has improved market transparency, which would never have been achieved without them. The bottom line, as accountants like to say, is that financial markets are global; they need global solutions, and you cannot achieve them without a global accounting language. And this is where investors' opinions are important. ■

*Want to know more? Veronica Poole will be among speakers at a CISI CPD event on this subject in London on 22 November. Visit **cisi.org/events** for details.*

Veronica Poole is Global Managing Director, International Financial Reporting Standards, Technical, at Deloitte LLP



Deloitte.

A costly slip-up

The latest in our series of ethical dilemmas for you to consider and respond to

DANIEL AND CRAIG had worked for Astrology Stockbrokers for a number of years before the firm was taken over by an Asian bank. The new structure that resulted from this left them feeling that their opportunities for further advancement were now limited, and they decided that the time was right to strike out on their own. They felt that, with their experience and customer contacts, they would be able to build a successful business and so set up a small equity-broking operation. The venture is based on Daniel developing client relations and Craig running the operations side of the business. The new business, Litmus, makes a slow start and, although it does a small amount of research, most of its broking is execution-only. The exception is a large self-managed fund client, Raptor, where Freddie, a schoolfriend of Daniel, works. Freddie is prepared to try to help Daniel by placing business with his firm. However, this means that Daniel is reliant on Freddie and Raptor for 75% of his business.

Approaching the Christmas holiday, Freddie calls Daniel to execute a multimillion-pound 'pairs trade' in FTSE 100 stocks, telling him to buy stock in ABC plc and sell a similar amount of XYZ plc. They have an animated conversation, following which Daniel executes the transactions. Daniel goes on his Christmas break feeling that at least the year ended with a decent piece of business. When Freddie receives the contract notes, he is horrified to see that what should have been a balanced transaction is anything but. The proceeds of the sale of the XYZ stock represented only 10% of the ABC plc purchase, due to the sale of the wrong share class in XYZ. He immediately phones Daniel, who is on leave, and in his absence is put through to Craig. He tells Craig that to correct the problem will cost more than £100,000 due to volatile price movements in ABC's stock, and asks him to try to confirm with Daniel what was actually said. Craig says that Daniel has gone abroad, but that he will listen to the tapes of the telephone conversation and tell Freddie what is revealed. Unfortunately, the tapes indicate that Daniel is at fault, with both the order and the confirmation being quite clear. On hearing this, Freddie feels sorry for Daniel. He is concerned that Litmus may disappear, and with it the exceptional service that he has received from Daniel. After considerable thought, he tells Craig that if he completes the ABC purchase to the intended value out of Litmus's funds, he will do his best to direct a significantly larger proportion of his firm's business to Litmus. This is provided he receives the market price as well as more specifically targeted research. The consequent commissions received from this extra volume of business will, over time, cover the £100,000 cost of putting the transaction right.

> ***To correct the problem will cost more than £100,000 due to volatile price movements***

Voicing concerns

Craig is concerned about the impact on Litmus of having to bear the size of loss that Freddie mentioned. He tells Freddie that, while he feels inclined to agree, he will have to discuss it with Daniel if he can get hold of him on holiday. Litmus does not have insurance cover for such a mistake. As soon as he finishes his phone conversation with Freddie, Craig calls Daniel. He manages to contact him at his holiday home and relays what has happened and Freddie's suggested resolution. Daniel is very apologetic that he did not follow Freddie's instructions, and recognises that this might prove a fatal lapse. Accordingly, he encourages Craig to accept the offer, saying that it should provide a satisfactory outcome for both firms and for Freddie's client.

Informal agreement

With Craig's agreement obtained, Freddie goes to see Carole, Raptor's Compliance Officer. While Carole agrees that his suggestion seems attractive, she wonders whether Freddie's clients, or any of Freddie's colleagues at Raptor, are aware of what has happened and what might be Freddie's ability to actually deliver his side of the bargain. Freddie assures her that the arrangement will not disadvantage the client, since Litmus is responsible for making good the correct share class in ABC, and that the normal disclosure of brokers' names and commission will be made to the client. Carole is uncomfortable with being put in the position of deciding whether or not to endorse an 'informal' agreement. Nevertheless, she feels she should give some advice and so tells Freddie that he has four possible choices:

- He can safely make his offer. His client is not being disadvantaged, since it would pay the same commission anyway.
- He should not make any offer to Litmus, as the mistake was its fault and it must take responsibility for the cost of putting this right.
- He should not make the offer. Although it is not a breach of the soft commission or payment for order flow or inducements rules, since Litmus would have to pay the loss anyway and Raptor is not receiving any money, it is perhaps against their spirit.
- He can make the offer, because while Freddie's other brokers may feel aggrieved, they have no right to the extra business, and Freddie's client does not suffer. ■

Visit cisi.org and let us know your favoured option. The results, together with the opinion of the Chartered Institute for Securities & Investment, will be published in the November/December edition of the S&IR.

Bonus points THE VERDICT

Ray, a young employee at a bank, does not qualify for the firm's bonus scheme but is given a cash payment as a personal gesture by his branch manager, Christine.

This was the Grey Matters dilemma posted in the June issue of the *S&IR*. Readers were invited to vote in a poll on the CISI website for the course of action Ray should take, choosing from four options.

The results were as follows:

- Discuss his concerns with Christine, who has given him the money – 44%.
- Call the bank's helpline and tell them of his concern – 41%.
- Raise the matter with the assistant manager – 11%.
- Accept the money, as he is sure that he has done nothing wrong – 4%.

The CISI response

It is interesting that this dilemma generated a higher level of comment from respondents than is generally the case in such surveys, although it is not obvious why this should be. Perhaps we all feel closer to situations to which we can easily relate.

Having tried out this dilemma with a younger person who has recently worked in branch banking, the preferred option would be to raise the matter with the helpline. The advantage of this course of action is that it is anonymous and does not require any face-to-face contact, which would probably be very difficult for a young person in Ray's situation. For this reason, this is more achievable and therefore more likely than for Ray to raise the matter with Christine.

Raising the matter with the assistant manager (if there is one) is problematic, in that Christine has specifically told Ray not to. If the assistant manager says that Ray should call the helpline, this will not cause him a problem. However, the assistant manager may have been party to Christine's action, so this may lead to further problems for Ray.

A small number of respondents suggested that Ray should keep the money, as he has done nothing wrong. This may have been a more prominent outcome with younger readers!

Need to read

The latest publications and study aids supporting CISI qualifications

NEW WORKBOOK EDITION

International Introduction to Securities & Investment (Arabic)

This unit – the first to be translated into Arabic by the CISI – provides an introduction to the world of financial services for people working outside the UK. It looks at the economic environment and the participants in the global financial services industry. A new edition (which will apply to exams from 21 August 2012 to 10 January 2014) of the *International Introduction to Securities & Investment (Arabic)* workbook is out now. Topics include:

- financial assets and markets
- equities, bonds and derivatives
- investment funds
- regulation and ethics.

Price: £75

TWO NEW WORKBOOKS AND ELEARNING EDITIONS

Investment Advice Diploma

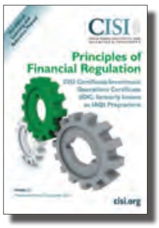
Derivatives: The aim of this Retail Distribution Review (RDR)-compliant unit is to provide those advising on and/or dealing in derivatives with the knowledge and skills required for their roles.

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

Price: £100 per subject for the link pack (combined workbook and elearning product)

NEW WORKBOOK AND ELEARNING EDITION

Principles of Financial Regulation



The Principles of Financial Regulation unit is part of both the Investment Operations Certificate, formerly known as the Investment Administration Qualification, and the Certificate programme. It aims to give candidates an understanding of the regulations and legislation that underpin the financial markets and the conduct of investment business more appropriate to the wholesale sector. A new edition of the *Principles of Financial Regulation* workbook and corresponding elearning product (applying to exams from 1 December 2012) is due out in September, and will cover:

- the regulatory environment
- the Financial Services and Markets Act 2000
- associated legislation and regulation
- FSA Conduct of Business Sourcebook/Client Assets Sourcebook.

Price: £100 for the link pack (combined workbook and elearning product)

NEW WORKBOOK AND ELEARNING EDITION

Securities

Securities is part of the CISI's Certificate programme. The qualification aims to ensure that individuals develop a good understanding of the technical aspects of securities so that their employers may seek approved-person status for them to advise and deal in that area. A new edition of the *Securities* workbook and corresponding elearning product (applying to exams from 21 December 2012) is due out in September, and will cover:

- asset classes
- primary and secondary markets
- settlement
- special regulatory requirements
- accounting analysis
- risk and reward.

Price: £100 for the link pack (combined workbook and elearning product)

NEW WORKBOOK AND ELEARNING EDITION

FSA Financial Regulation

The aim of this unit (part of both the Investment Operations Certificate, formerly known as the Investment Administration Qualification, and the Certificate programmes) is to ensure that candidates have an understanding of the regulations and legislation that underpin the financial markets and the conduct of investment business. A new edition of the *FSA Financial Regulation* workbook and corresponding elearning product (covering exams from 21 November 2012 until further notice) is due out in September. Topics covered include:

- the regulatory environment
- the Financial Services and Markets Act 2000
- the FSA's Conduct of Business Sourcebook/client assets.

Price: £100 for the link pack (combined workbook and elearning product)

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- financial crime
- investment principles and risk
- professional taxation
- training and competence
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Price: Free for all CISI members; otherwise, it costs £150 per user. There are also tailored module packages available for individual firms. Visit cisi.org/refresher for further information.

External specialists

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

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

The CISI would particularly welcome applications from specialists to help with developing its *Derivatives*, *Securities* and range of Middle East titles.

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

Diary

Events to attend over the coming months

Conferences

23 OCTOBER **CISI Training & Competence 2012: T&C Beyond Regulation**
Sponsored by 7City Learning
America Square Conference Centre,
1 America Square, 17 Crosswall, London EC3

7CITY LEARNING

CISI members can attend this conference for just £200 (non-members £400). For further details, visit *cisi.org*, call +44 20 7645 0680 or email *clientservices@cisi.org*

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

Branch events

18 SEPTEMBER **Transparency: ETFs Under the Microscope**
North East: Brewin Dolphin, Time Central, Gallowgate, Newcastle-upon-Tyne

18/19 SEPTEMBER **Traded Options**
Liverpool & North Wales: Investec, the Plaza, 100 Old Hall Street, Liverpool

19 SEPTEMBER **APCIMS Benchmarking**
Birmingham & West Midlands: TBC

20 SEPTEMBER **Annual Dinner and Awards Night**
Scotland: The George Hotel, 19–21 George Street, Edinburgh

21 SEPTEMBER **An Update from the Bank of England**
Yorkshire: Doubletree by Hilton Hotel, 2 Wharf Approach, Leeds

27 SEPTEMBER **Investment Briefing: Time for Equities?**
Guernsey: The Old Government House Hotel, St Ann's Place, St Peter Port, Guernsey

10 OCTOBER **RDR Flagship Event**
Jersey: Radisson Blu Waterfront Hotel, Rue de l'Etau, St Helier

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

9 NOVEMBER **Annual Dinner**
South Coast: RNLI College, West Quay Road, Poole

15 NOVEMBER **Annual Dinner**
Manchester & District: The Lowry Hotel, 50 Dearmans Place, Chapel Wharf, Salford, Manchester

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

Professional courses

Venue: London unless otherwise stated

24 SEPTEMBER **Pensions & Retirement Planning* (Manchester) £500**
26 SEPTEMBER **Integrity & Trust in Financial Services (half day) £300**
27 SEPTEMBER **Pensions & Retirement Planning* (Birmingham) £500**
27 SEPTEMBER **Securities* £500**
1 OCTOBER **Investment Principles & Risk (PCIAM)* (Isle of Man) £300**
1 OCTOBER **Investment Principles & Risk (IAC)* (Isle of Man) £500**
1/2 OCTOBER **Investment Principles & Risk (LSE)* (Isle of Man) £900**
2 OCTOBER **Investment Principles & Risk (PCIAM)* (morning) £300**
2 OCTOBER **Investment Principles & Risk (PCIAM)* (afternoon) £300**
3/4 OCTOBER **Derivatives** £900**
10 OCTOBER **Advanced Leadership Skills for Investment Seniors £500**
17 OCTOBER **Suitability and Appropriateness: Avoid Misselling £500**
18 OCTOBER **Investment Principles & Risk (PCIAM)* (Manchester) £300**
18 OCTOBER **Investment Principles & Risk (IAC)* (Manchester) £500**
18/19 OCTOBER **Investment Principles & Risk (LSE)* (Manchester) £900**
31 OCTOBER **Introduction to Financial Markets £500**
5 NOVEMBER **International Anti-Money Laundering: The True Grit £700**
6 NOVEMBER **Dealing with the Sanctions Regimes £500**
7/8 NOVEMBER **Understanding Regulation & Compliance £900**
13 NOVEMBER **Securities* £500**
14 NOVEMBER **Essentials of Supervision £500**

*This event fulfils the requirements for qualifications gap-fill between existing CISI exams and the new Retail Distribution Review exam standards

**This event fulfils the above criteria and requirements for qualifications gap-fill for CII exams – Advanced Financial Planning Certificate and Fellow/Associate (life and pensions route only)

Member and Fellow discounts

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

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

To book:
cisi.org *clientservices@cisi.org* *+44 20 7645 0680*

London CPD events

27 SEPTEMBER **Sir Thomas Gresham Docklands Lecture**
East Wintergarden, 43 Bank Street, Canary Wharf, E14

1 OCTOBER **FCSI Masterclass – Risk and the Board**
London Capital Club, Abchurch Lane, EC4

1 NOVEMBER **European Telecoms in 2013 and Beyond**
Standard & Poor's, 20 Canada Square, Canary Wharf, E14

13 NOVEMBER **Alternative Investment Fund Managers Directive**
Speechly Bircham, 6 New Street Square, EC4

14 NOVEMBER **Measures Beyond Money**
University College London, WC1

15 NOVEMBER **The 2012 US Election and Global Market Trends**
America Square Conference Centre, 1 America Square, 17 Crosswall, EC3

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

To book:
cisi.org/eventscal *clientservices@cisi.org* *+44 20 7645 0680*

Professional forums

Members' events

Penny Sanders MCSI

Malcolm Johnston

The CISI's professional forums meet in the City to debate current issues and hear presentations from industry speakers.

Sessions are free and open to CISI Fellows, Members, Associates and Affiliate members. Student members may attend one event of each forum annually.

Forthcoming events

Compliance
19 Sept: *Market Abuse – Credible Deterrence in Action. Learning the Lessons from Recent Cases.* Speakers: Harvey Dyson, Chartered FCSI, Solicitor, Stephenson Harwood; Elizabeth Hornby MCSI, Senior Associate, Eukleia Training; Peter Mulcahy, Senior Compliance Officer, Vantage Capital Markets
21 Nov: *Round Table. A chance to discuss topical issues*

Corporate finance
11 Sept: *The Big Debate: This house believes that the end of light-touch regulation will make it safer to do business with the City.* Speakers: Penny Sanders MCSI, Director, Wragge and Co; Javan Herberg QC, Blackstone Chambers
9 Oct: *Mobilising Private Equity.* Speaker: Professor Chris Higson
11 Dec: *Corporate Broking: Is the Obituary Premature?* Speaker: Tim Linacre, Chairman of Investment Banking, Panmure Gordon

Financial technology
27 Sept: *Does Your Board Understand Technology Risk?* Speaker: TBC

Islamic finance
30 Oct: *Is there Money in Ethical Finance?* Speaker: Dr Natalie Schoon ACSI, consultant

Operations
12 Sept: *Clearing House Risks – Recognition and Mitigation.* Speakers: Kathleen Tyson Quah, Chief Executive, Granularity; Dennis Cox FCSI, CEO, Risk Reward; John Siena, Assistant General Counsel, Head of EMEA External and Regulatory Affairs, Bank of New York Mellon
9 Oct: *Future Solutions for the Settlement Cycle.* Speakers: Gary Wright MCSI, Director, B.I.S.S. Research; Ian Sinclair, Director, Product Management, RBC Dexia Investor Services
14 Nov: *EU CSD Regulations.* Speaker: Derek Young, Chartered MCSI, Technical Specialist, FSA

Risk
20 Sept: *Banking Banana Skins and Problems.* Speaker: David Lascelles, Senior Fellow and Joint Founder, Centre for the Study of Financial Innovation
15 Nov: *Banking 2020.* Speakers: Andrew Mullinger, COO and Co-Founder, Funding Circle; Kevin Caley, Managing Director, Thin Cats

Wealth management
25 Sept: *Luddites or Leaders? How can Wealth Managers Approach the Use of Social Media?* Speakers: Oliver Crofton, Co-Founder, Vigilante; Malcolm Johnston, Managing Director, Reformation Associates; Dave King, CEO, Digitalis
27 Nov: *Inheritance Tax Planning, the Non-Assurance Approach.* Speaker: Peter Legg, Head, IHT Planning Matters

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

ANNUAL DINNERS

Branch functions in Leeds and Norwich

Emma Kilburn, Chartered MCSI, new President of the CISI Yorkshire branch, centre, with Neil and Christine Hamilton

Television personality and author Christine Hamilton was the guest speaker at the annual dinner of the CISI's Yorkshire branch. Her husband Neil, the former MP, also attended the event, which attracted more than 60 guests to Leeds' Doubletree by Hilton Hotel.

New branch President Emma Kilburn, Chartered MCSI, Head of Settlements at Williams Investment Management in Harrogate, spoke about local committee activities.

Thanks were issued by the CISI to ETF Securities, KA Watson Consultancy, Williams Investment Management and Aviva for their support of the event.

The Institute's East Anglia branch also held its annual dinner, with 36 guests attending the function at Norwich Cathedral Refectory.

Marcus Johnson, Chartered FCSI, announced he was stepping down as branch President to be succeeded by Martin Warren, Chartered FCSI, Managing Director at Barratt & Cooke stockbrokers in Norwich.

From left, Martin Warren, Chartered FCSI, and Marcus Johnson, Chartered FCSI, incoming and outgoing Presidents of the East Anglia branch, with CISI Chief Executive Simon Culhane, Chartered FCSI

Membership admissions and upgrades

MCSI
Al-Madina For Finance and Investment
Ganesh Mani
Arena Wealth Management
David Lumley
Arjent
Adam Sketchley
Ashcourt Rowan
Crispin Homer
Barclays
David Archer
Emmanuelle Dotezac
Gareth Helyer
Philip Hunt
Nick Lanzl
Bestinvest
Charles May
Sanjay Vaid
Brewin Dolphin
David Hanrahan
Brooks Macdonald
Mark Godwin
Butterfield Private Bank
Matthew Robinson
Huw Williams
Calmindon
Neil Holden
Canada Life
Daniel Shaughnessy
Charles Stanley
Richard Uzupris
Child & Co
Richard Kay
Cognizant
Natarajan Radhakrishnan
Conv-Ex Advisors
Mark Dalton
Coutts
Tina Horton
Michelle Stevens
Paul Warburton
Credit Suisse
Panagiotis Babalis
Nicholas Barton
Allen Chilten
Roberto Demartini
Ian Dembinski
Serge Desmedt
Marianna Fedon
Stefano Ferraiolo
Manon Gaeta
Gary Gillespie
Edward Greenhalgh
Harinder Hundle
Carl Jreidini
Christianus Johannes Le Blanc
Su Mei Liu
Luke Minost
Laila Pakzad
William Stephenson
Alexander Stiles
Guy Varney
Beatrice Zagolin

Membership admissions and upgrades

Deutsche Bank
Michael Hughes
Stephen Lawler
Fairbairn Private Bank
Andrew Halsall
Ferry Financial
David Ferry
Fleet Street Publications
Thomas Bulford
Friends Life
Merrick Jones
Group Financial Hottinger
Timothy Sharp
HB Markets
Andrew Coveney
HSBC
Omar Barghout
Peter Barriscale
Mark Bradley
Adam Brownlee
Esty Dwek
Marie Evans
Philip Harris
Harry Lewis
James Munson
Mark Niall
Mrinalini Ramakrishnan
Matthew Ryan
Kalpana Shah
Kevin Stevenson
David Waitson
Nathalie Woolcock
Investec
Wesley Harrison
Caroline Jarvis
Catherine Kirchmann
Andre Winter
JM Finn
Ivan Ferguson
Jupiter
Colin Chisholm
Kedge
Stephen Corcoran
Lloyds Bank
Hyun-Jung Uhm
Lloyds TSB
Jonathan Gage
London Wealth Management
Edward Tudor
Merrill Lynch
Matthew Conradi
Colin Dowdeswell
Edward Raymond
Michael Vavrinek
Robert Willsdon
Odey Wealth Management
Edmund Neville-Rolfe
Oman National Investment Corporation
Vickneswaran Gowribalan
OTC Derivnet
Amber Hatcher
Pencap
Roderick Smith
Pictet
Andreas Schwarz
Principal
Charles Brand
Tomas Owen-Jones
Quality Comfort
Khalid Shahnawaz
Quilter
Murray Clark
Rathbone
Julian Chillingworth
Daniel Faulkner
Ian Hardcastle
Karen McCusker
Raymond James
Robert Bewell
Reliance Securities
Suresh Viswanathan
Redmayne-Bentley
John David Shelvey
Peter Wall

Royal Bank of Canada
Paul Bowman
Andrew Miller
Tracy Parker
Jeremy Parlons
Eva Wrona
Royal Bank of Scotland
Christopher Bull
Santander
Scot Laing
Sarasin
Amy Browne
Seven
Nicholas Bowman
Seven Days Ahead
Mark Sturdy
SG Hambros Bank
Eric Barnett
Amar Mir
Anne Marie Taylor
Templars
Timothy Facer
Thomson Reuters
Kieran Smyth
UBS
Demir Guleryuz Avigdor
Andrew Kitchen
Marc Nightingale
Union Bancaire Privee
Alasdair Niall Stewart
University of Ulster
Philip Hamill
Vestra Wealth
Jenny Tozer
Vistra
Constance Clark
Whitley
Ian McCaig
Daniel Muller
Edward John Whitley
Yellowtail
Dennis Hall
Zurich
Mark Longford
Bhaskar Rao Vedula
Others
Parleshwar Sharma Doorgakant
Arpita Saraswat

ACSI

Adam & Co
Gerard Maguire
AIB Bank
Greg McIntyre
Ashburton
Jenny Warren
Assure Property
Ravinder Walia
Baillie Gifford
Zoe Benson
Bank of England
Christopher Wilder
Barratt & Cooke
Edward Sidgwick
BMB Group
Mohamed Rizmi Niyas Mohamed Shaffee
BNP Paribas
Rachell Cooper
John McLernon
Krishna Pabba
Elisabeth Silva
Brewin Dolphin
Tony De Marco
Conor Forker
Michael Paul Gerrard
Alena Ingvarsdottir
Carole Innes
Kathryn McLeod
James Nicholson
John Orrell
Thomas Solly
Butterfield Bank
Laura Sprules
Capita
Jane Carr
Lisa M Garside
Mike Hamilton
Capital International
Mark Blakemore
Stephen Kelly
Castlefield
Haydon Waldek
Charles Stanley
Alexander Hardwicke
Chirag Vajani
Chirag Vajani
City Asset Management
Michael Fitzhugh
Clariden Leu
William Griffin Freeman
Sebastian Halle-Smith
Close Brothers
Antony Boyd
Credit Suisse
Remi Leroy
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Sakib Mohammad
Currencies Direct
Alistair Cotton
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Claire Begley
Andrew Falle
James Higgins
Dubai Cable Company
Dhiraj Sinha
EFG Harris Allday
Alexandra Young
Emirates NBD-Global Training Centre
Zaman Kochu Kunju
Euroclear UK & Ireland
Maxine Caulfield
First Inland Bank
Benjamin Anwuri
Friends Provident
Michael McParlin
Globaleye
Mark Thorpe
Hassium
Eleanor Moulsdale
Hawksmoor
Edward Lowe
Holden & Partners
Stuart Ryan
HSBC
Louis Arron
Christian Brennand
Nicu Catalin Calinescu
Nicolas Fu
Impax
Jasmine McDonald-Williams
Ingman
Anna Smale
Jefferies International
Richard Combs
JPMorgan Chase
Ashutosh Vasisht
Lloyds TSB
John Bristow
Manu Choudhary
Mark Fuller
Carol Washer
Merrill Lynch
Tom Wicks
Mint Financial
Tomas Nugent
Mondial Academy
Peter David Shaw
Neptune
Adam Kelly
Octopus
Eleanor Hirsch
Oppenheimer
Christine Jervier
Pershing
Ian McCurdy
Principal
Peter Hooker
Katherine Langfield
Prydis
Stuart Gibbs
QIB
Tariq Farooq
Quilter
Oliver Stones
Jonathan Taylor
Rathbone
Bryn Jones
James Martin Neill
Rawlinson & Hunter
Alistair Campbell
Redmayne-Bentley
Sharon Essery
Lee Mark Thomas Seymour
Royal Bank of Canada
Gillian Campbell
Kara Jones
Royal Bank of Scotland
Oliver Chipperfield
Gemma Cosgrove
Rebecca Young
Siddalls
Robert Brealey
Smith & Williamson
Henrietta Clarke
Fern Hordern
Zoe King
Simon Robinson
Ian Richley
Standard Chartered Bank
Peter Talavera
David Mark Wells
State Street
Indu Kadia
Mark Le Boutillier
Syntel
Shankar Gawde
The Share Centre
Kirsty Edwards
UBS
Cheryl Lee
Vestra Wealth
Christopher Everard
Walker Crips
Sarah Content
Williams de Broë
Gareth Price
Zinc Hospitality India
Abhishekh Kanoi
Zubair Furnishing
Satish Ramabadran
Others
Bryan Coughtrie
Subhasish Dutta
Robert Fogg
John Gilmore
Gladys M Mandangu
Richard Marshall
Sheriff Mustapha
Saresh Shah
Svyatoslav Stepanenko

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Bank Leumi
Christopher Barratt
Inderjit Singh
Barclays
Mark Speechly
Brewin Dolphin
Alan Holton
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Peter Jones
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Roderik Ledderhof
Mitsui Bussan
Matthew Roy
Redmayne-Bentley
Jacqueline Crowhurst
Sandra Glen
Reynolds Porter Chamberlain
Richard Burger
Other
Daniel Krimholtz

Chartered MCSI

Arbuthnot Latham
Lee Clark
Bestinvest
Thomas Hawkins
Sally Merritt
Brewin Dolphin
Michael Harris
Brooks Macdonald
Claire Bennison
Charles Stanley
Edward Lester
CISI
Brian Selvanayagam
Close Brothers
Nicholas Parker
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Richard Tribe
Deutsche Bank
Lauren Osborne
Engage
Andrew Horsley
FMG
Francis Salvesen
Havelock Hunter
James Andrews
HSBC
James Strange
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Melissa Longley
Oriel Securities
James Nield
Quilter
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Nicholas Platten
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Simon Foster
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Rowan Dartington
Julian Hanford
Scottish Widows
Jake Moeller
Thomas Miller
Andrew Taylor
TY Danjuma
Geoffroy Dedieu
Simon Foster
Walker Crips
Wesley Coultas
Christopher Murphy

This list includes membership admissions and upgrades from 24 May to 12 July 2012

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

In full swing

When not working as a Compliance Manager and Fraud Officer, Diane Penson MCSI has a swinging time as a dance devotee. **Lora Benson** reports

Diane Penson

DIANE PENSON ENJOYS a trip back in time when she pulls on her dancing shoes.

Her passion is for the lindy hop (also known as the jitterbug), a partner dance that originated in the 1920s and '30s in New York's Harlem district and includes footwork borrowed from tap dancing and the Charleston.

When dancing socially, Diane likes to evoke the heyday of the dance by dressing in 1940s style. "Over the years I have collected many outfits – some original, some made to measure, including a GI Jane uniform," she says.

"The lindy hop is considered a cultural phenomenon that broke through the race barrier when segregation was still the norm. Lots of 1940s films have American GIs jitterbugging with their partners."

"It can either be wild and spontaneous or cool and sophisticated"

Diane, who has worked for Legal & General Investment Management in the City of London for 27 years, fell in love with the dance style when she took a class ten years ago. Previously, she had learned tap dancing and ceroc, a modern version of the jive.

She says: "I was brought up listening to the Big Band sounds of Count Basie, Duke Ellington and Glen Miller, so dancing to the swing music of the lindy hop was natural for me – I already knew a lot of tracks, or should I say 78s!

"Aside from that, the dance is good fun, energetic and sociable, and there is plenty of scope to improvise, as it can either be wild and spontaneous, with Charleston kicks, or cool and sophisticated."

Over the years, Diane has taught lindy hop at various classes. Currently, she instructs beginners at a dance school in Enfield, her home town.

"While it may sound obvious, one of the main challenges is to get pupils to listen to the dance music," she says. "Lindy starts with a rock step on the eighth beat of the bar. If you cannot hear the '8', then you don't know when to start dancing! Also, Lindy is danced with the knees bent, bottom out, like a skiing position. At first, most people dance very upright and their kicks are from the groin rather than the knee, but practice makes perfect."

Diane used to be part of a dance troupe called the Suga Mamas, which gave regular public performances in the UK. She has also taken part in Herrang, a four-week dance camp held in Sweden every year, where lindy hoppers take over the town.

It was there that she had the thrill of being partnered in the lindy hop by one of the great names from the early days of the dance: the late Frankie Manning. She also met Norma Miller, who, with Frankie, was a member of the pioneering dance group, Whitey's Lindy Hoppers.

Diane says: "To get an idea of lindy hopping at its best, I would recommend watching an amazing dance routine performed by Frankie and Norma in a 1941 film called *Hellzapoppin'*. The clip is on YouTube."

When not using up her energy dancing, Diane enjoys dressmaking, scuba diving, walking, cycling and caring for her family, including their pet, Billie the bearded dragon. ■

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

Diane and partner, in 1940s attire, show off some lindy-hop moves


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