SECURITIES & INVESTMENT

REVIEW

JUNE 2011

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

cisi.org/s&ir

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Wealth Management is a fine art.
Winner

REVIEW

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Published on behalf of the
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Fax: +44 (0)20 7907 4820
www.wardour.co.uk
ISSN: 1357-7069

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Average audited circulation: 17,558
for period July '09 — June '10

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Buyer beware

CISI OPINION

The FSA is right to push for better consumer protection, but this should not mean making the buyer exempt from responsibility for their purchase

LAUNCHING A FAR-REACHING discussion paper (DP), *Product Intervention DP11/1*, in January, FSA Chairman Lord Turner called for a radical rethink of consumer protection in the UK. This included proposals to consider fee caps and ban non-advised sales and some financial products. Although the CISI welcomes the openness with which the FSA has initiated debate in an area of such importance to our members, the suggested transition to a more intrusive and interventionist regulatory environment brings with it challenges and responsibilities that may prove hard for both the industry and the regulator to meet.

Responses to the DP by leading trade bodies across insurance (the Association of British Insurers), banking (the British Bankers' Association) and private client investment (the Association of Private Client Investment Managers and Stockbrokers) have now highlighted a number of commercial concerns. The message to the FSA is that a more balanced approach to consumer protection is required that reflects the diversity of the UK's retail financial services industry. For example, there are concerns that, while the regulator's insistence on a more rigorous product development and product lifecycle management process will help to increase consumer confidence, greater intervention will risk stifling innovation, impairing competition and reducing consumer choice.

Over the past two decades, the financial services industry has been hit by a succession of compensation costs. These costs have been associated with misselling of pensions, mortgage endowments, mortgages, current accounts and, most recently, payment protection insurance (PPI), together with a raft of payments for the failure of firms or products, or for providing unsuitable advice. The cash costs are enormous: for example, pension misselling cost £11.8bn and PPI compensation is estimated at £9bn, which dwarfs the £195m cost of the split capital investment trust saga and the £247m cost of the recent Keydata debacle.

It is, however, impossible to quantify the cost to the industry of business lost from the resulting lack of confidence in the sector.

There are concerns that greater intervention will risk stifling innovation, impairing competition and reducing consumer choice

Clearly, it is in the interests of all industry members to reduce misselling, which is, in part, why the FSA introduced the Retail Distribution Review (RDR).

However, the FSA already has significant powers to regulate the UK retail financial services industry and must be wary of extending its powers further or setting objectives that it will not be able to achieve. If the regulator is able to pre-approve all products, ban products or prohibit certain features, it will inevitably lead retail clients to believe that all retail financial services products are FSA-approved and insured, a view that a lot of people already hold.

Many consumers may find even a simple financial product hard to understand, but this does not mean that the concept of 'caveat emptor' or 'buyer beware' should not apply to any financial services products in the same way as it applies to all others. Nor should we seek to prevent 'non-advised sales', denying individuals the right to make their own decisions – and mistakes. As the regulatory framework evolves, the FSA and its successor, the Financial Conduct Authority, must ensure that consumers' rights are matched by a need to take responsibility for their actions. More prominent risk warnings and more effective promotion of existing consumer educational resources on the internet, rather than a general dumbing down of products, must be the way forward.

The industry is already undergoing significant turmoil as it prepares to implement the requirements of the RDR at the end of 2012. Introducing yet more significant change before this new regime has become established is not without risk, especially since it comes at a time when the industry is struggling with the higher costs associated with increased regulatory intervention and with the continued aftermath of the credit crisis. While implementing many of the themes discussed in the paper would improve consumer outcomes, any approach must reflect the industry's capacity to cope with further change, be balanced and be carefully executed. ■

ISLAMIC FINANCE

From left, Lina Gharib, representative of the Banque du Liban, Stéphane Attali, ESA Dean and Director General, and Ruth Martin, CISI Managing Director

Arabic IFQ launched

An Arabic version of the ground-breaking Islamic Finance Qualification (IFQ) has been launched.

Developed by the CISI and education and training institute Ecole Supérieure des Affaires (ESA), with support from the Banque du Liban, the central bank of Lebanon, the IFQ is the first benchmark qualification to cover Islamic finance from both a technical and a Sharia perspective.

The launch of the Arabic IFQ syllabus, workbook and exam took place at ESA's campus in Beirut. Candidates will be able to take the Arabic IFQ internationally via computer based testing. Since the English-language version of the IFQ was introduced in 2007, more than 1,800 exams have been sat. Over 1,000 of these were taken outside the UK, in countries including Lebanon, the UAE and Singapore.

Guests at the launch included Mr Raed H Charafeddine, First Vice-governor of the Banque du Liban and Chairman of the Advisory Council for Islamic Finance, and CISI Managing Director Ruth Martin.

Ruth said: "The IFQ was designed to fulfil the market requirement to provide an international benchmark in Islamic finance aimed at existing and new employees, as well as individuals seeking a career in the sector. The launch of the Arabic version of the IFQ is the next stage in the evolution of this important qualification."

Stéphane Attali, ESA's Dean and Director General, said: "Our mission was, and remains today, to contribute to the development of the region's business landscape through top-level academic and executive education. This first Arabic edition of the IFQ will be one of the key elements that enables us successfully to achieve our mission and export it across Lebanese borders."

Candidates with queries regarding the syllabus, training or exam for the Arabic IFQ should contact *qualifications@cisi.org*

For further information, turn to the Need to Read guide to CISI publications on page 26 or visit the Qualifications section at *cisi.org*

News in brief

Certificate success
More than 70 candidates who have passed one of the CISI's Certificate exams attended a recent reception to celebrate their success. The event, at Pewterers' Hall in the City of London, was hosted by the CISI and Brian Winterflood FCSI(Hon), Life President, Winterflood Securities. The Certificate achievers were particularly from the wholesale sector.

Under pressure?
The *S&IR* will next month include an article about the working culture in financial services and we want to hear your opinions.

Are the demands placed on individuals by employers reasonable or do they face a lifestyle that is too pressurised? How does the industry rate in offering flexible working opportunities to workers? Email Richard Mitchell at *richard.mitchell@cisi.org*

RDR

Additional exam sittings

The CISI is holding extra sittings of its qualification of choice for advisers who need to comply with the requirements of the Retail Distribution Review (RDR). To help meet industry demand, the Institute will run sittings for the Certificate in Private Client Investment Advice & Management (PCIAM) in June, September and November 2011, as well as January, March, May and June 2012.

The June 2012 sitting is the last recommended for those who need to become RDR-compliant, the deadline for which is 31 December 2012. The qualification will, however, continue to be offered after June next year.

The latest sitting, in March 2011, saw a record number of candidates, more than 400, take the exam. There have been more than 500 bookings for this month's sitting. PCIAM is on the FSA's list of appropriate qualifications for RDR purposes, covering the range of relevant activities: advising on and dealing in securities, advising on and dealing in derivatives and advising on packaged products. It is also an appropriate qualification for the non-RDR activity of managing investments. On completion of the PCIAM, advisers need only to complete a qualification gap fill to comply with the qualification element of the RDR.

For full information about PCIAM dates, the eligibility criteria and qualification gap fill, visit *cisi.org/pciam11*

5,157

The number of articles already viewed via the new CISI publications app. The app, available at cisi.org/app, allows eligible members to download the S&IR, *Regulatory Update and Investment Management Review*

LETTERS

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*,
The Milburn Report, published in 2009, stated that there is an urgent need within the professional sector to raise the aspirations of young people and to break the glass ceiling, which is a barrier for many.

By supporting the Government's Apprenticeships programme, the CISI has taken great steps to redress this and to open access to the financial services industry to young people who may not have made it through normal recruitment practices.

The Apprenticeships scheme offers young people the opportunity to study towards nationally accredited qualifications while they learn and participate in the workplace. The programme provides employers with loyal and highly motivated employees and funding is available to employers to train apprentices.

The CISI has developed a fantastic partnership with Skills for Growth, an educational charity that delivers apprenticeships and training to young people.

Since the beginning of last year, the CISI has recruited nine apprentices, three of whom have now been permanently employed by the Institute. These learners have played an integral role at the CISI, covering jobs in areas including membership, operations, customer relationship management and IT.

We hope the CISI will continue to experience the benefits apprentices can bring and would encourage other employers to follow the Institute's lead. The results of a survey among employers who employ apprentices show it is a worthwhile step. Some 88% believe that apprenticeships lead to a more motivated and satisfied workforce, while 83% rely on this recruitment avenue to provide skilled workers for the future.

To find out how to take on an apprentice in England, call the Apprenticeships programme on *08000 150 600* or visit *apprenticeships.org.uk*

Alternatively, employers in the London area can contact Skills for Growth on *020 8317 0165*.

Ashley McCaul,
Chief Executive, Skills for Growth, London

EVENTS

T&C conference

Gary Teper MCSI

"The ideal opportunity for individuals working in training and competence (T&C) to ensure that they fully understand the changing environment in which they and their firms operate and to benchmark good practice."

That's the verdict of Gary Teper MCSI, Director, Charles Stanley, on the CISI T&C Conference 2011. With T&C continuing to move up the regulatory agenda, the event will analyse the growing requirements for firms in this area.

The conference, in London on 12 July, boasts a line-up of expert speakers from the world of T&C, including Katharine Leaman, Manager, Professional Standards Policy, FSA; Bruce Herrington ACSI, Senior Competency Manager, Brewin Dolphin; Ian Howatson, Head of Learning and Development, Towry.

For full agenda and booking details visit *cisi.org/tcconference2011.*

MIDDLE EAST

Bahrain launch

Khalid Rashid Al Zayani, President of the CISI Advisory Council in Bahrain. (Photo courtesy of Bahrain Banker magazine)

In collaboration with the Central Bank of Bahrain (CBB), the Bahrain Institute of Banking and Finance (BIBF) has launched a Financial Advice Programme (FAP). Successful candidates will go on to become members of the CISI.

It is the first customised programme in Bahrain endorsed by the CBB as the minimum mandatory qualification for entry-level financial advisers in the Kingdom. It is aimed at individuals who have either recently joined, or are aspiring to enter, the financial advice sector.

"This is an important development in the CBB's stated objective of improving the level of knowledge and understanding that professional financial advisers provide to their clients," said Khalid Hamad, CBB Executive Director, Banking Supervision. BIBF Director Garry Muriwai added that the programme will help to strengthen Bahrain's position as an "international centre for financial services".

Khalid Rashid Al Zayani, President of the CISI Advisory Council in Bahrain, said: "Improving the professional skills of those who work in banks and other financial firms is a key factor in maintaining confidence in the system. Membership of a global professional body will give young Bahrainis a solid foundation for their careers."

REGIONS

New Jersey President

Ben Shenton, Chartered FCSI

Politician Ben Shenton, Chartered FCSI has been appointed President of the CISI branch in Jersey.

Ben is a director and equity holder of TEAM Asset Management in St Helier, where he manages investment portfolios for private clients. He has more than 30 years' experience in the financial services industry.

Since 2005, he has served as a Senator to the States of Jersey, the parliament of his home island. Currently, he is Chairman of its Public Accounts Committee, which monitors government spending. In addition, he is Vice President of the Channel Islands Co-operative Society, one of the biggest local employers and retailers in the Channel Islands.

He said: "My involvement with the Institute goes back over ten years and, during that time, I've witnessed a strong desire to push forward improvement in professional standards. My aim will be to expand further the CISI membership in Jersey, which is already more than 850-strong, and ensure that the Institute continues to develop its services.

"My political role keeps me informed of relevant industry changes and there cannot be many politicians in office today who hold an exam pass in integrity!"

SELECT BENEFITS

Further discounts

What do website design and childcare have in common? They are just two areas in which CISI members can secure savings through the Institute's Select Benefits scheme.

A 30% discount on published design prices is available from SiteWizard.co.uk, a low-cost website and ecommerce solution provider. For example, a five-page professionally designed website that would normally cost £599.95 is reduced to £419.97. The amounts quoted are minus VAT. There is no contract and SiteWizard.co.uk offers a 30-day money-back guarantee together with a best-price promise.

www.SiteWizard.co.uk

Childcare vouchers offer eligible working parents the opportunity to save as much as £933* each per year on registered childcare costs for children up to the age of 16. Vouchers are offered to you through your employer and, as a CISI member, you receive a preferential rate for your company. This deal is provided through Computershare Voucher Services, the UK's largest dedicated provider of childcare vouchers.

For more information on how to obtain these deals and other savings, visit *cisi.org/memberlogin*

*Terms and conditions apply. See website for further details. Subject to individual circumstances.

CISI Select Benefits is managed on behalf of the CISI by Parliament Hill Ltd of 127 Cheapside, London, EC2V 6BT.

ASIA

Sri Lanka Advisory Council

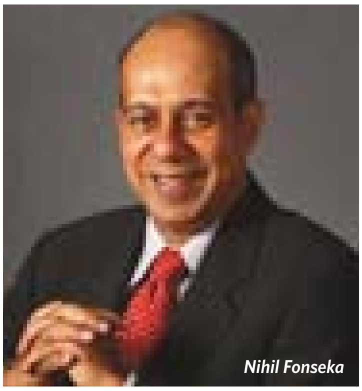
The CISI has announced the members of its National Advisory Council (NAC) for Sri Lanka.

Chaired by Nihal Fonseka, General Manager/Director and Chief Executive, DFCC Bank and Chairman of the Colombo Stock Exchange, the NAC will support the expansion of the CISI within Sri Lanka. It will maintain and develop the Institute's membership, establish a market for the Institute's qualifications and offer CPD events, contributing to the growth of capacity in Sri Lanka's financial services sector.

In March, the CISI opened an office in Colombo to provide financial qualifications to students and industry professionals and serve as an administrative hub for the Middle East and South East Asia.

Nihil Fonseka said: "As more and more people in Sri Lanka start to invest in stocks and other securities, it is important that there are enough qualified people to provide them with sound advice. The entry of the CISI is very welcome in this context."

Other NAC members are: Nandika Buddhipala, Chief Financial Officer, *Commercial Bank of Ceylon*; Channa De Silva, Managing Director, *LR Global Lanka AssetManagement*; Ajith Devasurendra, Managing Director/CEO, *Taprobane Group*; Dr Hareendra Dissa Bandara, Director, *Financial Services Academy, Securities and Exchange Commission of Sri Lanka*; Indrajith Fernando, Managing Director/CEO, *Bartleet Transcapital*; S. Jayavarman, CEO, *National Asset Management*; Madu Ratnayake, Vice President and General Manager, *Virtusa Corporation, and board member of Sri Lanka Association for Software and Services Companies (SLASSCOM).*



Nihil Fonseka

11,924

The number of attendees at 272 CISI professional and social events in the UK in 2010/11

EVENTS

AGM date announced

This year's Annual General Meeting (AGM) will be held at the CISI, 8 Eastcheap, London EC3M 1AE, on Thursday 22 September, commencing at 10.30am.

The closing date for nominations for Board membership is Friday 8 July 2011. A member (MCSI) or Fellow (FCSI) of the Institute may be nominated for elected vacancies on the Board. Board members retiring by rotation may stand for re-election and the Board itself may also sponsor candidates for any vacancies arising.

A nomination form, which includes an explanation of the requirements for the election of candidates to the CISI Board of Directors, is available on the CISI website. Alternatively, a hard copy of the nomination form is available, on request, from Linda Raven. Email *linda.raven@cisi.org* or telephone *+44 (0)20 7645 0603*.

The Chairman, Alan Yarrow, would be happy to speak to any potential nominee or sponsor before a formal application is made. He can be contacted by emailing *alan.yarrow@cisi.org* or telephoning *+44 (0)20 7645 0603*.

ONLINE

BEST OF THE BLOGS

1 prospectmagazine.co.uk/2011/05/is-faith-in-india-misplaced/

"India is as close to collapse as it is to success," warns Harjeet Johal. Manufacturing faces unrelenting pressure from China, India's services sector looks transient and its agricultural sector is "so badly managed that it fluctuates violently between sustainability and Malthusian disaster within a season". Not to mention "a subsidy culture and endemic corruption that infects every level of India's bureaucracy, from postman to president". India may have the swagger of a superhero, but it is closer to the "archetypal banana republic, barely in control of basic functions".

2 economist.com/blogs/freeexchange/2011/04/india_outpaces_china

If India used the same measure of GDP as China, its 2010 growth rate would be higher than China's, says *The Economist*. India currently deducts taxes and subsidies before calculating its GDP number; China does not. Because Indian taxes increased disproportionately last year, the Indian figure is depressed; using the China formula, and matching the time period, India grew by 10.4% to China's 10.3%.

3 ft.com

Writing in the *FT*'s comment and analysis section (*India: Writing is on the wall*), James Lamont and James Fontanella-Khan report a swell of concern at India's corruption problem. K.P. Singh, Chairman of India's largest property firm, says the sector is "plagued with archaic laws" and UK Prime Minister David Cameron shocked Indian lawmakers in February by hinting that the days of the 'licence Raj' were not over, in a letter to his Indian counterpart Manmohan Singh.

CISI in the blogs
finextra.com/community

In last month's *S&IR*, the *City View* column noted the information overload compliance departments face at the hands of the FSA. Steve Dance, of RiskCentric in Cambridge (*Information overload*), commended the research: "It puts some firm data against all of the anecdotal evidence."

See page 12 for a full discussion of India's growth and corruption story.

Do you have a blog recommendation?
Please send it to the Editor: *hugo.cox@wardour.co.uk*

CLAY *'MUDLARK'* HARRIS

Back story on Michael Johnson of BNY Mellon

Michael Johnson was a pioneer, having been among the first band of recruits when the Bank of New York decided to move its corporate actions processing to Manchester in 2006. In five years, that greenfield operation – now part of the merged BNY Mellon – has grown from 50 to 1,100 people at two city-centre sites.

Michael – at 27, a Vice President and Group Manager – attributes his progress both to the opportunity of being in at the start and to BNY Mellon helping him to discover an aptitude for management and to develop the necessary skills.

At Liverpool University, in his hometown, he had first studied business economics and computer science, but he soon dropped the latter subject as he refined his goals.

"I always knew I wanted to do something related to business," Michael says. "I struggled with macroeconomics. It just seemed so vast. I really needed something tangible to be coming out at the end of it. I took a shine to market research at that time. After graduating I was under the impression that, with my 2:1, people would be throwing jobs at me." But he applied for market research and other positions without success.

He worked for six months in Co-operative Bank's local call centre in Skelmersdale, but found it monotonous. "I didn't just want the system to decide for me what to try to sell to the customers."

His break came when BNY began recruiting in Manchester as part of its plan to create a new operation capable of supporting continuing global growth.

The first three months involved classroom-based learning, since most recruits were starting from scratch in the industry. "It's such a young workforce, with a lot of people straight out of university." They gained hands-on experience on one function at a time, always shadowed by experienced staff in London.

Michael became a Deputy Analyst on the mandatory events side of corporate actions. After a year, he was promoted to Analyst and achieved his CISI Investment Administration Qualification, now also known as the Investment Operations Certificate.

When BNY merged with Mellon Financial Corporation, its experience was used as a template for the transfer of many of Mellon's functions to Manchester. The respective companies' legacy custody platforms still operate discretely, side by side, although the ultimate goal is to develop a unified system.

Michael became a Section Manager and is now Group Manager for the legacy BNY Corporate Actions team, with responsibility for the UK, Irish and five continental European markets.

He completed his CISI Diploma last year. "It was pretty full on but brilliant. I loved every minute of it." BNY Mellon paid for classroom learning sessions run by BPP.

Michael also takes part in the bank's management development programme, which includes team projects such as organising a day's visit by a school party and taking over a charity shop to increase its takings.

"I've progressed a lot further than I thought I would. I probably would have ended up somewhere in banking – maybe in a branch – but I've been very lucky here in terms of opportunity."

Michael Johnson

Vice President, BNY Mellon

Do you have a back office story?

mudlarklives@hotmail.co.uk

Illustration: Luke Wilson

CPD

CISI email bulletin

Advice and guidance on a range of CPD topics will be given to members in a new CISI email bulletin. The bi-monthly bulletin is being launched by the Institute as CPD becomes more important than ever for members.

Chartered Members and Fellows of the Institute must complete at least 35 hours of CPD annually to retain their status. Additionally, the implementation of the RDR will require compulsory CPD for retail investment advisers. The CISI wants to ensure that members undertaking CPD feel confident that the content being logged will meet the required criteria.

Pivotal to how members demonstrate compliance will be their CISI CPD log. With this in mind, the Institute will, in its bulletin, provide information in areas including the suitability of CPD, logging activities and audit advice. Hints and tips will help members to get the most from their log and avoid any mishaps that could affect their end-of-year CPD result.

Further information will appear at *cisi.org/cpd* and in editions of the CPD bulletin, the first of which will be sent by email this month.

SURVEY

Strong support for internship pay

An overwhelming 97% of financial services players believe that employers should pay interns, according to a survey by the CISI.

Respondents to the survey, conducted on the CISI website, were asked to choose from four options about the level of financial support that firms should provide for interns. More than half – 56% – said that remuneration should consist of out-of-pocket expenses and modest pay; 28% said that modest pay was appropriate, while 13% favoured the payment of expenses only. Only 3% felt that internships should be unpaid.

Comments from respondents included: "Unpaid internships are exploitative and should be banned" and "certain students can ill afford to take low/unpaid work as they have to provide for themselves." Another said: "In finance, in particular, there is a lot of responsibility given to the intern. Rewarding talent should start here."

But supporting unpaid internships, a contributor said: "A properly supervised and varied internship in a real business is worth more than the corresponding time on a first degree course, for which the student will pay substantial fees and living costs."

Under a new social mobility strategy, the Government aims to reverse a culture of unpaid internships, which, it says, favours young people from more affluent and well-connected backgrounds. Firms will be asked to pay interns or face the risk of a legal challenge under the national minimum wage legislation.

More than 800 people took part in the survey.

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

Ask the experts...

Angela Knight CBE FCSI(Hon)
Chief Executive Officer, British Bankers' Association

LIBOR

Why the London Inter Bank Offered Rate matters and how it is calculated

Since the global financial crisis began in early 2007, almost every aspect of the system has been subject to renewed scrutiny, investigation and possible reform. This year has seen increased interest in the calculation of the global benchmark for interbank lending – the London Inter Bank Offered Rate, or LIBOR.

LIBOR has been widely adopted across the world's financial markets and is recognised today as the primary benchmark for short-term interest rates. It is used as the basis for the settlement of interest rate contracts on many of the world's major futures and options exchanges and is increasingly employed as a key economic indicator for the health of the financial markets.

Who uses LIBOR

Independent research indicates that about $350trn of swaps and $10trn of loans are now indexed to LIBOR. It represents the lowest actual cost of unsecured funding in the London market.

The individual LIBOR rates are the end product of a calculation based upon submissions from a panel, which is made up of the largest, most active banks in each of the ten currencies in which LIBOR is calculated.

The calculation is undertaken by Thomson Reuters, the designated calculation agent, on behalf of the British Bankers' Association (BBA). Thomson Reuters audits the data submitted by panel banks and creates the daily rates, usually within one hour of receiving the submissions.

How it is calculated

A LIBOR application is installed at the cash desk of every LIBOR contributor bank. On every business day, between 11.10am and 11.20am, an individual at each bank (typically the currency dealer) inputs the bank's rates for the day into the application, which links directly to the team at Thomson Reuters. Banks cannot see one another's rates as they submit; they can only do so after final publication. Thomson Reuters then runs a barrage of automated and manual tests on the submitted rates before sending them to the calculation engine. Once this is complete and all of the benchmarks have been generated, the data is released to the market, via Thomson Reuters and nine other data vendors.

The simple calculation is known as a trimmed arithmetic mean. Thomson Reuters receives and reviews all submissions and discards the furthest outlying numbers – the trimming. For instance, if 16 banks submit values for a particular currency, Thomson Reuters discards the highest four and the lowest four numbers (the top and bottom quartiles), then calculates the mean of the middle eight. This is repeated for every currency and maturity, giving 150 daily rates.

Trimming ensures that no single contributor can influence the calculation and hence affect the benchmark.
Any submissions that are dramatically different from the mean are outliers and are therefore discarded.

BBA LIBOR has a number of strengths:

- Simplicity – the calculation methodology is straightforward and unambiguous.
- Transparency – we publish all the information required to understand and verify the calculation on our website, bbalibor.com. This includes the definition of the product with detailed commentary, the instructions given to contributors and the calculation methodology. We also publish all the inputs, attributed to the individual banks that submit them, as well as the outputs.
- Market-led – all decisions regarding the design and calculation of the product are taken, in consultation with all market participants, by a panel of independent market experts drawn from a cross section of the user base of LIBOR. In addition, comments on any aspect of the data are welcomed and may be submitted to *libor@bba.org.uk*

Do you have a question on anything from tax to virtual trading? *richard.mitchell@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 (0)20 7645 0680** or visit ***cisi.org***

Q1 To whom should an employee report any suspicious money laundering transactions?
A) Compliance Officer *B)* Bank of England *C)* Money Laundering Reporting Officer *D)* Serious Organised Crime Agency

Q2 Which ONE of the following is a characteristic commonly associated with hedge funds?
A) They are one of the most heavily regulated investment sectors *B)* Their cost structure typically involves substantial performance-related fees *C)* They can only invest in a relatively narrow range of assets *D)* Investment entry levels are comparatively low

Q3 Which ONE of the following statements may be regarded as a tax advantage for ISAs?
A) Details of income received on investments must be included on tax returns *B)* Gains made on investments will not be charged CGT *C)* Bond funds are less attractive for income ISAs *D)* Tax-free income is less attractive to higher rate taxpayers

Q4 In a slowing economy, the public sector net cash requirement will most likely reflect which of the following?
A) A surplus, as the government receives more tax than the budget anticipated *B)* A surplus, as the government receives more from tax and other revenues than it spends *C)* A shortfall, as the government spends more than the budget anticipated *D)* A shortfall, as the government spends more than it receives from taxes and other revenues

Buried *Treasuries*

Structural weakness, not the prospect of actual default, is the risk signalled by Standard & Poor's recent downgrading of US debt

WHY ANYONE would be shocked by a credit rating agency warning of a US debt downgrade is a mystery. After all, what could a single analyst at Standard & Poor's (S&P) tell us about the world's deepest and most liquid bond market that we did not know already?

That America has a huge fiscal deficit and may struggle ultimately to pay the bill is hardly a surprise. Ever since the banks were bailed out, market bears have been predicting that the next leg of the financial crisis will be the failure of sovereign borrowers. Witness the rescues of Greece, Ireland and Portugal. Why not the US?

But S&P's decision to downgrade the long-term US debt outlook from stable to negative, which emphasised the political problems in Washington of reaching a deal to cut the US deficit, still had the capacity to shock.

The reverberations – gold has risen to fresh nominal records and the dollar has plumbed three-year lows – continue to be felt weeks after equity markets and US Treasuries had themselves absorbed the news. Whether we should be worried is an interesting question.

Certainly, the financial consequences of America losing its triple-A status could be severe. An actual default would be catastrophic. A Treasury bond market crisis, in which the ultimate 'safe' asset was judged to be about as risk-free as a punt on a Grand National outsider, does not bear thinking about. Global interest rates would leap sharply and the ensuing financial turmoil would, in retrospect, make the collapse of Lehman Brothers look a squall. The spike in borrowing costs would probably tip the US and much of Europe back into recession. The rest of the world would go down with them.

> *The spike in borrowing costs would probably tip the US and much of Europe back into recession*

There is a one-in-three chance that S&P, based on past form, will follow through with a downgrade in the next two years. But in this case, past form may not be a good guide. Don't get me wrong: for all the official optimism in the White House, there is every risk that US politicians may fail to agree on how to tackle the US public debt. But there is a long way to go before America becomes the next Greece.

Firstly, investors know that, in a risky world, there are still few alternatives to US debt. That is probably the reason why bickering Democrats and Republicans have got away with it so far, and why Treasuries have barely flickered since the S&P warning. Secondly, the warning could actually have a beneficial effect if it brings about agreement on the path to fiscal retrenchment. The agency's decision to put the UK's triple-A rating on negative outlook in May 2009 led to tough decisions on tax increases and spending cuts by the coalition Government. The warning was later lifted.

Thirdly, even if S&P does act, investors must still come to their own judgment about the likelihood of an actual default. While there are institutions that can hold only triple A-rated debt and that might be compelled to sell their Treasury holdings, Washington would probably inflate its way out rather than renege on its debt.

As Warren Buffett recently told Berkshire Hathaway investors: "The United States is not going to have a debt crisis as long as we keep issuing our debts in our own currency ... The only thing we have to worry about is the printing press and inflation."

But that's hardly a comforting prospect. The threat of higher interest rates would remain – making debt no more attractive. And, while a bond market Armageddon might be avoided, the risks seen in holding other countries' debt would only grow. One consequence of that would be to make it harder for the UK and others to weather their own heavy dose of austerity.

So, should we be worried by the rating agencies? Not by S&P's warning per se: that's an opinion, shared by others and based on publicly available data. More concerning is what the rating agencies might not be picking up. That, and the prospect of a return to 70s-style inflation. ■

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

Photo: Johanna Ward

Honest growth

A history of corruption has damaged India's image and arguably hit foreign investment flows. But the Indian Government is at last taking steps to clean up the problem and overseas investors should note the country's economic fundamentals, which look strong next to those of China, says **Tamsin Brown**

ON THE FACE of it, India's prospects look sparkling. Its $1.5trn (£919bn) economy is expected to grow at a rate close to 8% over the next two years, according to the International Monetary Fund (IMF). HSBC forecasts that, by 2050, it will have become the world's third-biggest economy. Whereas many other emerging markets rely on a booming export economy to meet demand in the developed world, India's growth is being driven by its domestic market, which accounted for 57% of GDP last year. "This helped insulate it from the global slowdown and provides long-term incentives for foreign investment to tap into India's expanding middle class," says Deepak Lalwani, OBE, Chartered FCSI and Founder Director of London-based India consultancy Lalcap.

Western companies are attracted to a country known for its entrepreneurial flair, evident in the success of home-grown businesses such as conglomerate Tata Group, which now generates 57% of its revenues overseas.

Indian appeal

The Indian Government has progressively relaxed investment caps for foreign companies. The result is that, between 2003 and 2010, the number of foreign direct investment (FDI) projects increased by 7% a year, on average, led by US firms (see table on page 14). For English-speaking investors, there is the added bonus that they share a language with most Indian business people. But India has a corruption problem. Last year, 54% of Indians paid a bribe, according to a study by Transparency International, a non-governmental anti-corruption organisation. A $39bn (£24bn) telecoms scandal, in which kickbacks allowed mobile phone licences to be sold at a fraction of their actual value, was a particularly striking example. In a report published in March, KPMG warned that the series of high-level corruptions and scams over the past two years was threatening to derail the country's credibility and economic boom. Its survey of Indian corporates found that more than two-thirds of respondents believe that India can achieve more than the targeted 9% GDP growth if corruption is controlled. It is hard to measure how much corruption has affected overseas companies' and governments' plans to invest in India – negative publicity over last year's

Commonwealth Games did not help – but foreign investment flows have been falling recently following the boom of the last decade. FDI into India dropped by 25%, to $18.3bn (£11.2bn), between April 2010 and February 2011. The sum is dwarfed by the $105.7bn (£64.8bn) that was invested into China via FDI in 2010. Foreign institutional investors in India also appear to have been shaken. They pulled $2bn (£1.2bn) out of the markets in January and February, despite investing $29bn (£17.8bn) last year.

Fighting corruption

The public outcry over corruption has been mounting and the Indian Government has started to take steps to tackle the problem. An anti-corruption bill, first conceived in 1972, looks likely finally to make its way through the Indian parliament later this year after a 96-hour hunger strike by 72-year-old activist Anna Hazare forced the issue into the media spotlight. Graham Ward, CBE, Vice Chairman of the UK India Business Council and member of the CISI International Committee, says that the bill will give overseas investors tangible evidence that the Indian Government intends to tackle corruption. "They are going to appoint an independent ombudsman as part of the bill who will follow through on accusations of corruption against public officials and be able to initiate prosecutions against them," he says. "I think that is an important move ahead."

Government work is matched by local initiatives. Last year, Indian non-profit governance organisation Janaagraha created a website where people can report how much they paid for a bribe, where and for what. In the six months since its launch, Ipaidabribe.com has logged more than 250,000 hits and members of the public have filed 5,000 reports detailing the bribes they have paid. Making the market for bribery transparent in this way is already having an effect on Government departments. Janaagraha figures reported that Bangalore's Road Transport Organisation, which is responsible for issuing drivers' licences and vehicle registrations, had the second-highest number of bribes of all bodies in the city. In response, the head of the organisation committed publicly to reduce the practice.

Elsewhere, the Government has made significant strides in paring back India's infamous bureaucratic system. Foreign companies already in a

A KPMG survey found that two-thirds of Indian corporates believe that India can achieve more than its targeted 9% GDP growth if corruption is controlled

Debt and GDP

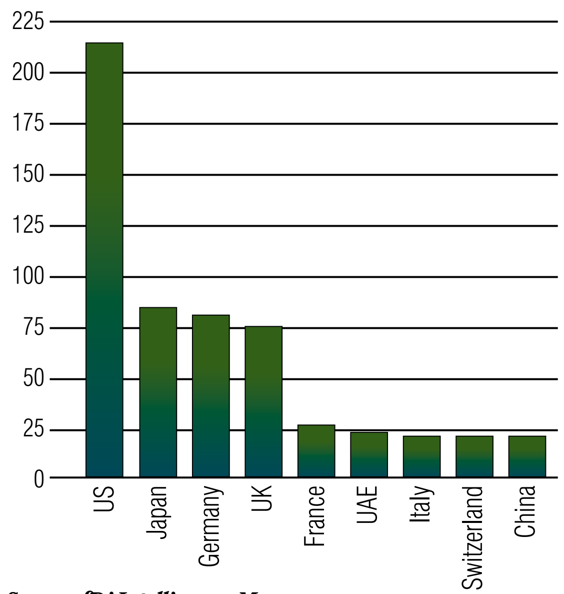
At the heart of India's Government investment is its pledge to spend $1trn on infrastructure in the five years from March 2012. Can it afford this? Philip Poole, Global Head of Macro and Investment Strategy at HSBC Global Asset Management, thinks not. He estimates that the current Government debt-to-GDP ratio is about 76%. In China, where there is less need for infrastructure investment, the IMF estimated debt-to-GDP ratio to be 22% in 2010.

But how accurate is China's figure, which is based on data from the Government in Beijing? Victor Shih, Professor of Political Science at Northwestern University, evaluated 8,000 local Chinese Government borrowing transactions that go largely unreported in the Government figures used to calculate the debt-to-GDP ratio. Shih claims that the actual ratio for 2011 will be nearer to 96%. Inaccuracy in reporting is a problem in China; in the February issue of the *S&IR*, our feature on China, 'All fall down', noted that informal securitisation was rife, despite being banned by the Government. It said that 40% of banks' privately placed investment products go unrecorded in official figures and that lax definitions of non-performing assets grossly underestimate the banking sector's exposure to bad loans.

Illustration: Stuart Briers

Leading foreign investors in India 2010

Total foreign direct investment projects by country



Source: fDi Intelligence, May 2011

joint venture with an Indian firm may now inject fresh capital into the sector without having to get prior approval from their Indian partners, and it is now quicker for foreign firms to set up a company in India. The Government is also making inroads into much-needed infrastructure investment. Economists estimate that poor infrastructure in the country shaves between 1% and 2% from GDP growth; Prime Minister Manmohan Singh has said that India needs to spend $1trn on this over the five years from March 2012 (see the box on page 13 for a discussion of whether this is affordable). These reforms place India on an increasingly strong footing compared with China, the other regional powerhouse, against which it is often measured. Its banks' balance sheets appear to be in better shape. About half of India's lending and deposit taking is dominated by the state-owned State Bank of India and its dozen or so 'regional daughters'. But, unlike the Bank of China, which has been an unashamed instrument of Beijing's economic policy, Bank of India subsidiaries operate relatively independently. "While these are state-owned and commercially run, the bank has not been subject to the kind of policy-driven lending of the state-owned Chinese banks, so balance sheets are healthier," says Jan Randolph, Director of Sovereign Risk at IHS Global Insight.

People power

India's more fundamental advantage is demographic. Half of the 1.2 billion people living in India are less than 25 years old. In China, the one-child policy means that the country's population is getting older, raising the spectre of labour shortages and a big bill to support its large number of retirees. The latest Chinese census results, released in April, showed that less than one-sixth of the population was under 14, down from a quarter ten years ago. The number of Chinese aged over 60 increased by about 48 million, reaching 13.3% – up more than 3% from ten years ago. India's economic growth is driven by domestic demand, which should make it more sustainable. India's figure of 57% compares favourably with that of 35% in China. Domestic demand will only strengthen in future as India's middle class expands. The McKinsey Global Institute predicts that it will grow to 583 million by 2025, about 12 times the size it was in 2005. A corruption problem deeply embedded in society certainly presents challenges to India's emergence as a superpower. And a bulging youth population could turn from an asset into a hindrance if there is not enough work to go round. Inflation is certainly a risk: in May, the Reserve Bank of India raised interest rates for the ninth time since March 2010 after inflation climbed to 9%. After state-run oil refiners raised petrol prices by a record 9% in May, opposition party supporters blocked roads and rail lines. The Indian Government has said that, in the short term, at least, reducing inflation is a higher priority than spurring economic growth. But the fundamentals of India's economy are strong, especially if the Government proves committed to its ambitious targets for infrastructure spending. India is less advanced along the path of economic reform than China, so it has further to go. China's economic reforms began in 1978, initiated by the then Premier Deng Xiaoping, and opened up the country to the outside world. India did not start its reforms until 1991, when Prime Minister Singh, then Finance Minister, took steps to liberalise the economy. Lalwani points out that the first $1trn (£612m) of GDP took India 60 years to achieve; he suggests that it will achieve the next $1trn in less than seven years. China took 50 years to achieve its $1trn and less than four years to achieve the second. Lalwani concludes: "China is ten years ahead on the economic superhighway. I think that this decade will be for India what the last decade was for China." ■

Foreign investment in India

There are still a few sectors in which foreign company investment is limited or banned. Banking, telecoms and aviation all have a 74% cap on foreign direct investment (FDI). Newspapers and insurance have a 26% limit. Atomic energy, lottery gaming, betting and real estate are closed to overseas investors, as is multi-brand retail, meaning that the likes of Tesco cannot set up shop. This stems from fears that competition from international players would affect the local small retailers and hit jobs.

The US is still the biggest FDI investor but its share of investment has fallen sharply, according to Ernst & Young. It puts this down partly to US opposition to outsourcing amid pressure to keep jobs at home. Meanwhile, the UK's investment in FDI projects is concentrated in business services, manufacturing, and sales, marketing and support.

Investment from Asia Pacific has been increasing. China moved from the 16th biggest investor in India in 2009 to equal seventh in 2010, in terms of numbers of projects (see table).

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Swimming TOGETHER

The growing popularity of index investing and the greater influence of high-frequency trading is causing increasing correlation between stocks. **James Gavin** investigates its causes and effects

IT APPEARS THAT investors are increasingly moving as one. In 2010, global stock markets saw correlations between stocks hit historic highs, as macro-economic factors – namely sentiment about the direction of the global economy – gained sway over micro-economic factors, such as the relative merits of individual stocks.

A recent study by J.P. Morgan into US stock markets shows that, while, in 2005, so-called 'market returns' – the wider direction of the market – were responsible for less than 30% of stock price takings, in 2010 they were responsible for 60% of stock price profits. The report notes that 70% of the price performance of an average S&P 500 company in the industrials sector is caused by the S&P 500 direction; only 30% of performance is stock- or even sector-specific (the table opposite illustrates this research further).

Frequency effect

High-frequency trading firms (HFTs) seem to play a role in the increasing correlation of stocks over the short term. The 'flash crash' last May was a startling manifestation of this phenomenon. On that day, an unusually large trading order, placed via an automated algorithm, caused the Dow Jones index to lose and then regain 9.2% of its value within minutes. A subsequent report from the US regulator concluded that rapid buying and selling among HFTs was instrumental to the initial drop.

"If everyone traded once a day instead of thousands of times a day, the crash would not have happened," says Jeffrey Wurgler, Finance Professor at New York University.

But there is more to correlation than HFTs. The growth of exchange-traded funds (ETFs) and indexing is driving longer-term correlation. With ETFs now a $1trn global industry, the buying and selling of the constituents of indices tracked by these funds has caused stock prices to move more closely together.

> *The danger presented by correlation is exacerbated by the fact that it increases at times of major market upheaval, when investors most need diversification to work*

Wurgler last year published a paper for the US National Bureau of Economic Research that demonstrated how including stocks in indices makes them move in tandem with other index members, regardless of differences in their earnings or relative valuations.

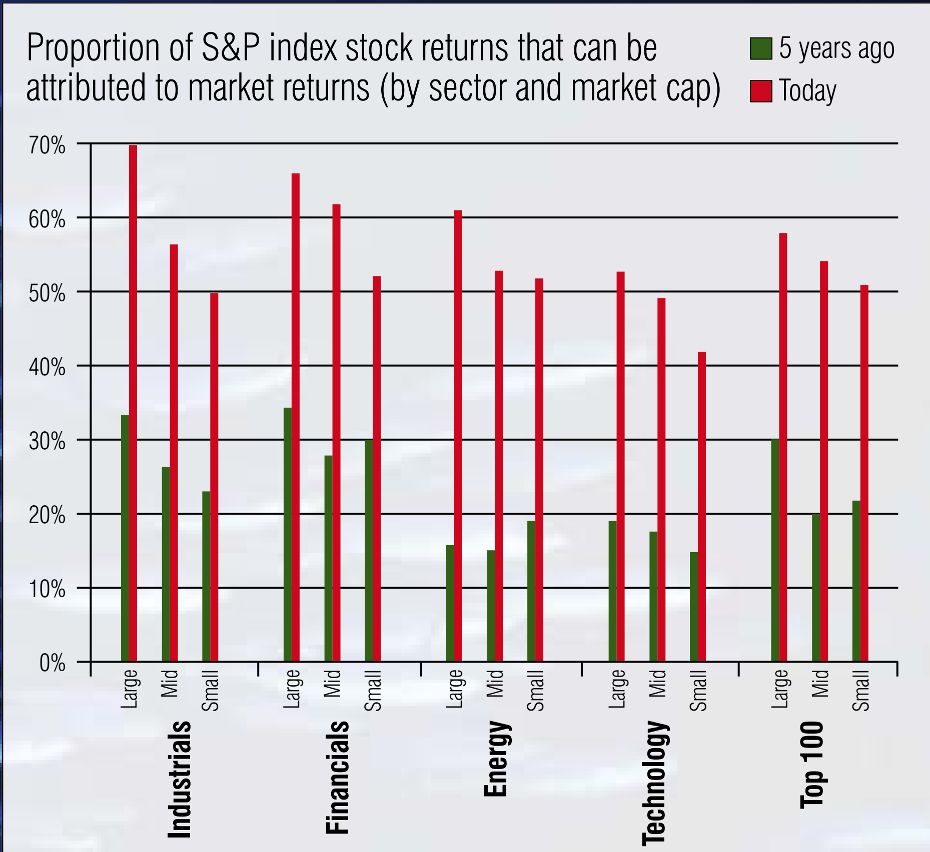
"Before ETFs and other index-replicating investments, many investors judged stocks more individually: on a given day, some would go up and others down. When investors invest indiscriminately in an ETF, the buying and selling pressure means that everything tends to go up or down in tandem," he explains.

Index inclusion also increases volatility. Poorly performing stocks 'fall out' of the index when their total market cap becomes smaller than the next-largest company. This triggers automatic selling of vast number of shares in the company by index-tracking funds, driving down the share price. Big price swings in leading stocks in a sector – those large enough to be in the index – tend to affect prices of related smaller firms, which makes matters worse.

Even active fund managers now use ETFs to get core exposure to a benchmark. "Investors are using indices as building blocks and, as a result, market swings are exacerbated – everything is going in the same direction," says Lindsay Tomlinson, Chairman of the National Association of Pension Funds.

Cost of correlation

Extreme levels of correlation have a number of implications for equity investors. "Correlation basically defines how well diversification works," says Nicholas Colas, Chief Market Strategist at ConvergEx Group. "Implicit in diversification is that a series of assets that are not correlated will provide either the same return for lower risk or a higher return for the same amount of risk. It's the mathematics of how two assets move relative to the performance and risk



Source: J. P. Morgan Equity Derivatives Strategy

of a portfolio of securities." So when correlation increases, diversification becomes harder to achieve. This deters investors: risk appetite reduces if they feel that they can't manage risk by putting money to work in diversified assets. "[Rising correlation] reduces capital growth and capital formation because it makes owning risk assets riskier," continues Colas. "The basic idea of diversification is that if I own a lot of US stocks, I'll also buy some European stocks to get a steady return." This danger is exacerbated by the fact that correlation increases at times of major market upheaval, when investors most need diversification to work. "Where things go wrong is at the point when you want diversification to benefit you – that's when correlation seems to jump so you don't get the protection from diversification that you thought you'd be getting," says Tomlinson. "That's more of a long-term issue for the industry than one caused by the impact of HFTs."

Vicious cycle

Greater correlation also makes it harder for firms to raise capital for expansion. Asset owners are more reluctant to plough money into capital markets if they think that, whatever they choose, price moves will have little to do with the specific characteristics of the individual stock or sector that they have selected. If it is getting harder for investors to pick individual stocks and bonds, then index funds become even more attractive, entrenching their effects on correlation. Both retail and institutional investment advisers have embraced ETFs in increasing numbers as an alternative to actively managed funds. Stephen Einchcomb, Head of Equity Derivatives Strategy at RBS, concludes: "This trend has tended to reinforce some of the patterns that have already been identified. It simply re-emphasises the whole trading pattern that was pushing up correlation."

Role of central banks

The effect of ETFs and HFTs on increasing correlation has been further aggravated by a widespread low-interest rate environment provided by developed markets' central banks since the financial crisis. "Capital markets are deep, broad and global, so you need something with a lot of push behind it if you want to explain a lot of these correlations," says Colas. "Most investors point to the directed and consistent policy of central banks since the financial crisis to keep interest rates low, keep the liquidity taps on and encourage people to buy risk assets by giving very little return for non-risk assets." With Treasury yields remaining low in the US, and high-quality European bonds also offering modest yields, safety-oriented investors are getting little for their money. This pushes investors into risk assets in a uniform fashion. As long as the macro backdrop, ETFs and HFTs are all driving greater correlation, investors will continue to move together. ■

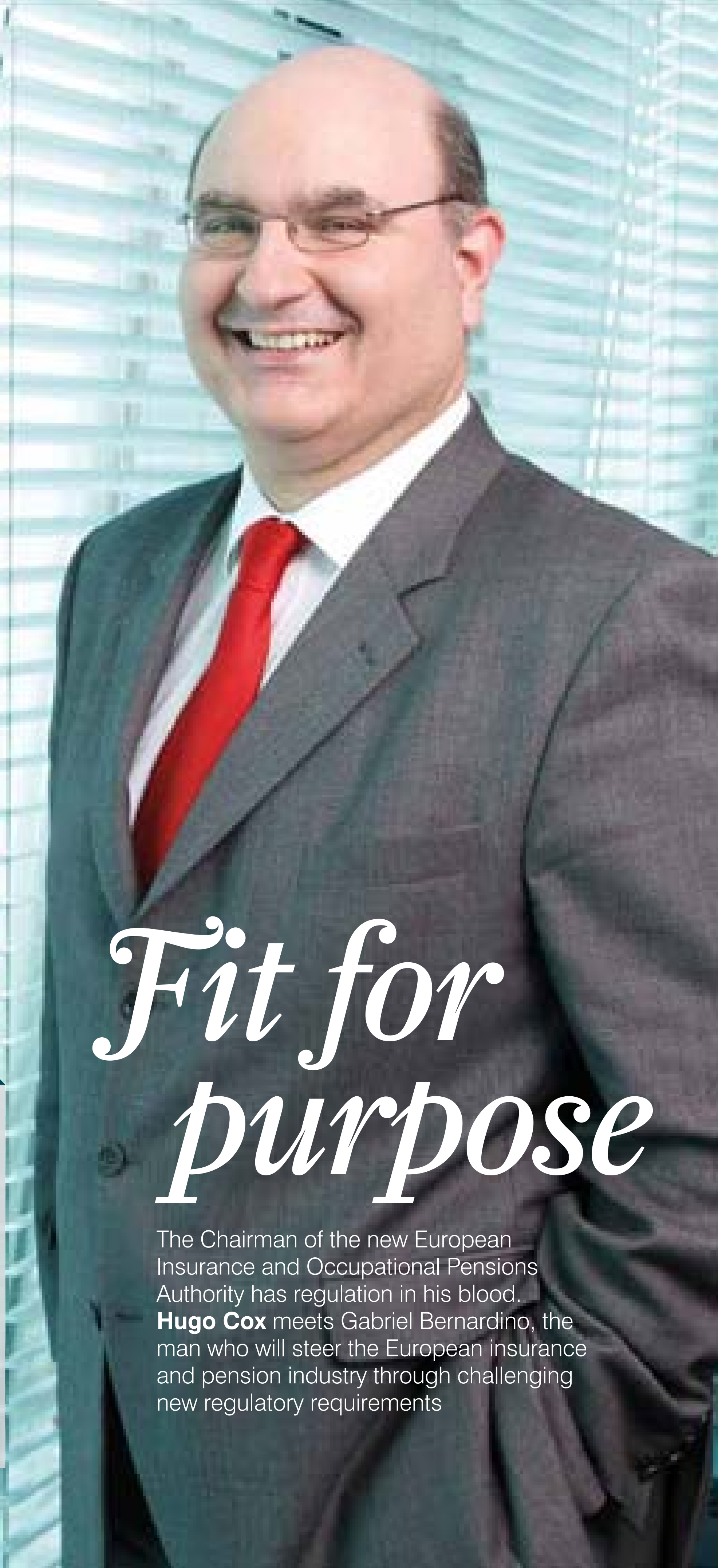
The fees question

Active fund managers use ETFs to give basic exposure to the benchmark, as an alternative to holding cash and as a way of getting into specific sectors or markets quickly and at low cost.

But traditional pooled funds are far more expensive than ETFs. While there is a trading fee to trade in and out of an ETF, many firms waive brokerage commissions on them, and the management fee is typically less than 0.5%, compared with 1.5% or more for mutual funds.

So, if managers are shunting a large slug of their assets into passive funds, how can they justify their high management fees? It all depends on how the ETF is being used, says Lindsay Tomlinson, Chairman of the National Association of Pension Funds and one of the pioneers of index investing. "If an active manager just sits there with 50% of the client's money in a UK index-tracking ETF, then I'd say it's not really fair to charge a fee on top of that."

But the vast majority of fund managers will use the ETF as an asset allocation vehicle, benefiting from the low cost, breadth of exposure and liquidity provided by this route. "Given that the greatest value-add is in asset allocation, rather than stock selection, it's not unreasonable to charge an active management fee on top of what is effectively the stock selection fee built into the ETF," concludes Tomlinson.



Fit for purpose

The Chairman of the new European Insurance and Occupational Pensions Authority has regulation in his blood. **Hugo Cox** meets Gabriel Bernardino, the man who will steer the European insurance and pension industry through challenging new regulatory requirements

EIOPA

The European Insurance and Occupational Pensions Authority is the European Union institution responsible for regulation of the insurance and occupational pensions sector. It was formed in January from the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). It is one of three new European watchdogs that underpin a revamped European financial supervision framework, which also comprises the European Banking Authority and the European Securities and Markets Authority. EIOPA's Board of Supervisors is made up of senior regulators from member states – FSA CEO Hector Sants represents the UK – and is run by a six-person management board that includes Sants.

EIOPA is an independent advisory body to the European Parliament and the Council of the European Union. Its core responsibilities are to support the stability of the financial system, transparency of markets and financial products, as well as the protection of insurance policyholders, pension scheme members and beneficiaries.

Bernardino has strong ideas about the principles that guide the work of the new institution and has committed himself to creating a particular structure for the new body. "I want to create a governance structure that delivers independence, transparency and consistency in our work," he says. "Independence is crucial: we want to be able to take in opinions from throughout the industry but also to be independent of individual national regulators."

CV snapshot

2010 – Chairman of European Insurance and Occupational Pensions Authority (EIOPA)

2009 – Chairman of Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

2007 – General Director of Development and Institutional Relations at Instituto de Seguros de Portugal (ISP)

2005 – Member of the Portuguese delegation for the European Insurance and Occupational Pensions Committee

2000 – Director of Development at ISP

1996 – Manager of supervisory teams at ISP

1989 – BSc Mathematics from the Universidade Nova de Lisboa, Portugal

Photo: Axel Hess

THERE AREN'T MANY people who could boast a passion for the principles of risk management while still at school. But for a man who is every inch the career regulator, this heritage is thoroughly fitting. In 22 years, Gabriel Bernardino has gone from a role in actuarial support at Portugal's insurance and pensions regulator to Chairman of one of the three pillars of the European regulatory regime, the European Insurance and Occupational Pensions Authority (EIOPA).

At the heart of his job is the huge task of implementing Solvency II. This is the updated set of EU regulatory requirements for insurance firms, intended to facilitate the development of a single market in insurance services in Europe, while ensuring adequate consumer protection.

"Our role is very clear here: to achieve consistent and convergent implementation of regulation," he says at the beginning of our conversation. Why is convergence so important? "Because the way supervisors do their job is reliant on the information they get from the industry."

Solvency II defines common templates for every supervisor in Europe. Because every insurer submits the same type of information, regulators can get common indicators for key characteristics such as risk. These will provide the basis for guidelines for best practice, which will not be binding, but rather will operate on a 'comply or explain' basis. "I'm not saying it's possible to compare these activities absolutely," says Bernardino. "Certainly, the way German firms do things may be totally different from the way the British firms do. But we can get much closer to comparability than we are now."

> ***"Are we going to apply Solvency II to pension funds? Definitely, my answer is no"***

Bernardino's energy for the challenge of enforcing a new regulatory regime on insurers derives from a personal conviction that he is helping to equip an industry that we will all increasingly have to rely on.

"I feel that, in future, the mechanisms by which society distributes risk will be among our most important resources as we work to manage the impact of environmental change and human enterprise on our world," he says. The instruments that will allow the risk to be spread throughout society will be crucial, he explains, and insurance-linked securitisation will play a pivotal role. "For that to work, we must get beyond the current diabolic associations of the word 'securitisation', following the role of the sectors in the financial crisis," he explains.

But Bernardino is mindful of the excessive expectations that seem to have followed the financial crisis on the part of people unconnected with the industry. "Thinking we can make risk disappear is unrealistic," he says. "What we can do is deal with it more transparently and in more detail. But people need to connect again with the reality of risk."

Early interest

Bernardino's interest in these questions started when he was still studying – "I found myself very attracted to the theoretical potential of what mutualisation and risk-sharing could bring to society" – and he was able to cultivate it during his first job at the Portuguese regulator Instituto de Seguros de Portugal. "Besides this passion for investigation, I have always been passionate about teaching," he says. "I was able to continue this throughout my career, until I became more involved in the Committee of European Insurance and Occupational Pensions Supervisors [the precursor of EIOPA] in 2006."

Despite the scale of the opportunity in Frankfurt, the decision to take the new job was far from straightforward for the family man who had up to then spent all his life in his native Portugal. He explains that the decision to uproot his family from Lisbon involved a series of intense family discussions. "The 'small' issues in these decisions are by far the most important ones here," he says. "Seeing the expression on my young daughter's face when I told her we would move to Frankfurt and she realised she would be away from her friends was very difficult. My wife and I had to think long and hard about the move."

Smart protection

Bernardino set himself three tasks when he took up his current role in 2009. They were to create an accountable, independent and well-governed regulator; to oversee the implementation of Solvency II; and to improve consumer protection. But developing a more robust regime to protect those who buy insurance and pension products is not simply about providing them with more information about the risks. This, he notes, soon becomes overwhelming and counterproductive: "The answer is not more, but more streamlined, information."

Surely the same argument could be made for companies. The *S&IR*'s City View piece last month noted the strain that compliance departments of UK companies now face given the increasing quantity of information released to them by the FSA. This, went the argument, risks throwing the baby out with the bathwater, as firms hobbled by an excessive compliance burden are no longer able to innovate or drive down prices for consumers.

Bernardino accepts the risks of overloading firms in this way. "Regulators have the same responsibilities to companies as to individuals. We can't have a one-way relationship that results in the industry being overburdened," he says.

But, in the case of Solvency II, he believes that the information burden is one that firms should embrace, as it will support the better and more effective running of their business. "Certainly, whenever you have new regulation, this challenge exists for companies. But Solvency II requirements focus on good governance and better ways to deal with risk: firms should be focusing on these things to become more competitive," he says. "We have made important progress here. The requirements of Solvency II are much better linked with true risks than those of its predecessor."

Pension funds

The extent to which the Solvency II requirements will apply to pension funds is something that is of considerable interest to the industry, following the European Commission's request for EIOPA to advise them on the matter. Certainly, says Bernardino, there is a need to introduce a risk-based regime for pension funds, and Solvency II meets that requirement. But its application to pension funds will be limited to specific areas – risk management, internal controls and greater transparency – rather than across the board.

"Are we going to apply Solvency II to pension funds? Definitely, my answer is no," he notes.

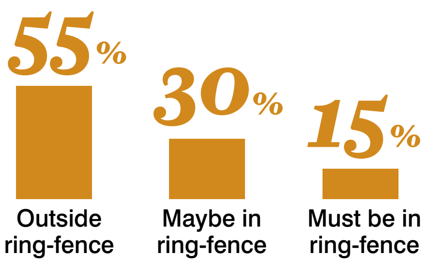
The priority for pension funds is to develop an industry that operates effectively on an international scale, rather than the limited, haphazard offerings that now exist. "We do want to improve the cross-border provision of pensions and allow this industry to develop," he says. "The focus is on removing the obstacles that currently prevent this from happening, such as the wide variance in social and labour laws across member states." ■

Splitting up

The Independent Commission on Banking has suggested that banks ring-fence their retail operations, raising fundamental questions about the relationship between the investment banks and the costs of retail banking. **Tamsin Brown** finds that many are still to be answered

BANKS BREATHED a sigh of relief when the Independent Commission on Banking (ICB) published its interim report in April. Sir John Vickers' Commission stopped short of recommending a full break-up of retail and investment banking operations in favour of proposals to ring-fence assets in the retail bank. The retail arm would be required to carry additional levels of the safest, most loss-absorbing Tier 1 capital (see box, right, for a summary of the report's proposals). The news was solace to investors, too: shares in Barclays and Royal Bank of Scotland gained close to 3% on the day of the report's publication. But all is far from clear. "Banks face major challenges and complexity in implementing the ICB's recommendations," says a KPMG report. As the dust settles and bank executives sift through the detail of the 208-page document, they are discovering that it is long on questions and short on answers.

Proportion of total assets of UK banks within a retail ring-fence



Source: Company accounts 2009, ICB estimates

A blurred boundary

The Commission was intentionally vague regarding exactly where the boundary separating a bank's retail operations from its wholesale or investment banking arm will fall. Retail deposit-taking is the only service that will definitely fall inside the ring-fence, but many other services look destined to follow it. "'Retail banking' is taken to mean broadly the provision of deposit-taking, payment and lending services to individuals and small and medium enterprises," says the ICB report. As Figure 1 demonstrates, wealth management advice and investment products, as well as mortgages, are leading candidates for hiving off into the retail bank. With the details still unclear and representations ongoing, bankers are reluctant to comment publicly on what the separation might mean. Even harder to gauge is the impact the changes will have on those sectors that use investment banks to help package services and products for their clients, such as investment managers, private client stockbrokers and fund managers. If the banking groups face increased costs for running their retail divisions, this could influence the price and variety of services they offer. But they may just as easily cut loose their retail banks and continue business as usual, or find a way to absorb the costs that doesn't pass them on to this small subset of their clients. These secondary effects are hypothetical and none of the representatives of these sectors approached by the *S&IR* was prepared to speculate. The impact on private wealth divisions of the banks will be more direct but highly complex. Sources close to the Commission suggest that wealth management and private banking divisions could wind up being split between the retail and wholesale arms, depending on what type of service the customer is buying from the bank.

Profit warning

The report says little about the commercial viability of ring-fencing for banking groups, but it is hard to imagine a version that will not damage profitability. At the publication

Summary of the interim report of the Independent Commission on Banking

- Large UK banks should "ring-fence" their retail operations from their investment and wholesale banking activities to protect depositors. But it stopped short of recommending a full separation of retail and investment banking operations.
- Core Tier 1 capital in the ring-fenced retail bank should be at least 10%. Capital requirements for investment banks would not have to exceed international standards, currently 7%.
- Banks should be allowed to move capital between their businesses, provided their capital ratios don't dip below minimum levels.
- Lloyds Banking Group should sell "substantially" more than the 600 branches it has been told to offload by the European Commission.
- Banks should make switching current accounts quicker and more efficient for customers.
- The new Financial Conduct Authority should have a clear primary duty to promote effective competition.

of the report, ICB Commissioner Bill Winters insisted: "In the structure we're proposing, the retail bank and the investment bank ... can operate under the same group, with all of those cross-selling and customer service synergies that have existed historically." But the detail of the report brings this into question. Buried down on page 193, annex 7 discusses how separation might work in practice. Among the rules that "might" apply because of the retail ring-fence is the following: "The retail subsidiary must have access to operational services that will continue in the event of insolvency of the rest of the group." This would compromise economies of scale around transaction processing, IT and other operations. "If you had to have a separate payments platform, what does that mean in terms of shared services such as the technology department? What does it means in terms of costs? The report is pretty silent on that," observes Giles Williams, Partner on KPMG's Regulatory Services Panel.

Constraints on wholesale funding?

More problematic is the following section of the report, which floats the idea of "imposing further constraints on the level of wholesale funding allowed in the retail bank". This would have serious implications if the retail bank were limited in how far it could use wholesale markets to fund investment products and mortgages. If the result is that the size of a UK retail bank becomes determined by the volume of retail deposits it attracts, the range and cost of mortgage products seems likely to suffer. The next issue is counterparty risk. The KPMG report notes that, if the investment bank is treated as a third party, as required in the ICB report, the retail arm will have to spread its wholesale exposure across a range of providers to limit counterparty risk and meet large-exposure limits. "The retail bank could offset the risk in a similar way as building societies already do, for example by using hedging instruments such as interest-rate swaps," notes Andrew Gray, UK Banking Leader at PwC. But hedging fixed-rate mortgage exposure in this way would be more complicated and more expensive, at least initially, if multiple counterparties were made obligatory. On the flip side, the segregation of the retail bank would seem to benefit investors, by encouraging an open-architecture model where the retail bank is less incentivised to sell products packaged by the investment bank. "It starts to do away with the concept of the tied adviser," notes Alasdair Steele, Corporate Partner at law firm Nabarro.

Regulatory capital

The question of how free banks will be to move funds between wholesale and retail arms is also unclear. The report's executive summary says that banks would "retain significant freedom to transfer capital". But in annex 7, it moots the idea that the bank will require regulatory approval for transfers of capital out of its retail subsidiary. Can banks really remain nimble enough to be competitive if they have to check with the regulator every time they move capital between the retail and investment banking arms? Uncertainty also reigns over the implications of separation on the competitiveness of UK retail banks. Vickers' Commission seems keen to provide reassurance that UK banks with big foreign operations will not be disadvantaged. "Given that a purpose of structural reform is to limit the risk to both the UK taxpayer and economy, there do not seem to be advantages to imposing limitations on the worldwide activities of banking groups headquartered in the UK," says the report. So, for firms such as HSBC and Standard Chartered, it sounds as if the retail requirements will not extend to foreign subsidiaries. But what about foreign banks with operations in the UK? Currently, European passporting rules allow EU banks to operate as 'branches' in the UK without submitting to UK rules (as long as they comply with their own domestic regulations). If the EU does not hike the capital requirements for retail banks to 10%, in line with the ICB proposal – and there is no indication that it will – European banks selling into the UK, such as Santander, will be at a considerable advantage. Vickers will hope that Michael Ellam, Managing Director of the UK Treasury's International and Finance Directorate, will be able to effect fair play in Brussels: the top UK official was recently appointed to the chair of the EU's Financial Services Committee.

Figure 1: What counts as retail banking?

Activities that must be in ring-fence	Activities that may take place in ring-fence	Activities that must not take place in ring-fence
Retail deposit-taking	Current accounts*	Trading
	Savings accounts*	Debt and equity underwriting
	Investment products	Client hedging services/risk management
	Wealth management advice	Securitisation structuring, distribution and trading
	Consumer loans	M&A and restructuring advice and finance
	Business loans	Proprietary trading
	Mortgages	
	Credit cards	
	Trade finance	
	Project finance	

* Except where these involve retail deposit-taking, for example in the case of personal current accounts.

Source: ICB interim report

> ***Worryingly, the report floats the idea of "imposing further constraints on the level of wholesale funding allowed in the retail bank"***

What happens next?

Banks and other interested parties have until 4 July to respond to the interim proposals and higher costs will be on their list of grievances. The increased capital ratio suggested by the ICB report alone – 10% core Tier 1 capital, rather than the 7% currently required by Basel III – will make retail banking more expensive to fund. Who will meet these costs? Shareholders are already under pressure: J.P. Morgan estimates return on equity for the major global banks will be 10% this year, compared with about 13% before Basel III. The UK banks, which face a bill of billions of pounds for missold payment protection insurance after they abandoned an appeal in the courts, are in no position to drop customer service levels to save money. The alternative is to increase retail banking costs. "What might this do to 'free' current accounts?" wonders Williams. "Will we end up all paying, say, £5 a month?" Chancellor George Osborne is under no obligations to follow the proposals of the final report – to be published in September. But the end of free retail banking would hardly be a vote winner. Many questions still to answer, then. ■

Measuring *the impact*

Impact investing, still in its infancy, is a sector to look out for, says **Ritchie Macdonald**

IN A RECENT market report, J.P. Morgan predicted that impact investing could become a $1trn sector of the investment market within the next ten years. For those 'in the know', this was not really a big surprise, but the sector is not yet widely understood. Part of the difficulty is that the term 'impact investing' covers a spectrum of investments that deliver positive social and environmental benefits, as well as a financial return. The only common trait all impact investments must have is one of intent. They must all set out to address social or environmental problems. However, both the significance of the impact and the level of financial return can vary tremendously from one investment to the next. In the short term, impact investing may be defined by what it is not. As the new kid on the block, it has to fit into an already crowded universe of social investment jargon. That universe reflects a series of tests that are applied to investments in order to classify them in this space. The same fund may pass some tests and fail others. As a result, it could be described as 'ethical' but not 'green', and 'socially responsible' but not 'sustainable'.

Socially responsible investing

For many years, the investment industry has offered what are termed 'socially responsible investments'. Socially responsible investing tends to come in three styles:

- Screening – excluding businesses whose activities are considered harmful or specifically seeking out those whose activities are considered beneficial to society or the environment.
- Engagement – using shareholder influence to change potentially harmful or unethical practices.
- Community investment – more common in the US than the UK, these are investments to help underprivileged or financially excluded elements of society.

In the UK, screening is most commonly used in a negative way, in order to eliminate certain industries or companies that are considered harmful. Typically, tobacco, alcohol, armaments and animal-testing industries are excluded, along with individual companies with bad records for exploiting developing world labour or causing excessive pollution. Over time, this so-called negative screening (screening out the worst offenders) has been supplemented by


Illustration: Gary Neill

positive screening (selecting the best of breed). This still means that you might be putting your money into oil or mining conglomerates, but they would be the best-behaved ones. Did you know that Rio Tinto is in the FTSE4Good Index – which is designed to measure objectively the performance of companies that meet globally recognised corporate responsibility standards – as is Richemont, owner of Alfred Dunhill? These may be fine, well-run companies, but would you expect to see them in such an index? No wonder there is an issue with terminology when it comes to describing social and environmental investments.

Positive screening is continually developing, with themed funds now available, particularly in the clean and renewable energy sector. They invest in businesses developing or operating non-polluting technology and come close to the intent implicit within impact investing. Again, terminology or jargon (depending on your point of view) is important to gain an understanding of these funds. Many socially responsible funds are also described as 'green' or 'ethical' depending on what is screened out or in. Based on the strength of the criteria applied to do the screening, they could be 'dark green' (stringent criteria) or 'light green' if a more lenient approach is applied. Generally, there is a rule of thumb that, if more than 10% of profits or revenues are derived from a harmful activity, a company will not get through the screen. However, some funds will be excluded if there is any involvement at all.

What about sustainable investments?

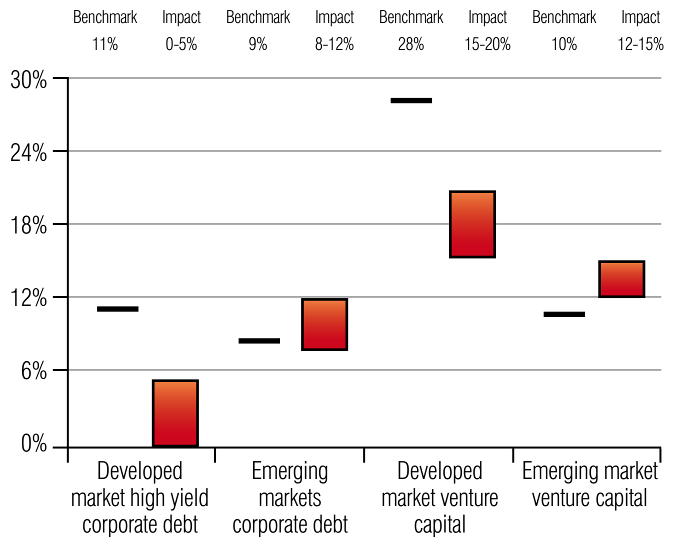
Sustainability implies a care for the environment and the consequences of your actions but sustainable investments do not guarantee any specific benefits in this area. In fact, the principles behind sustainability are very much focused on financial due diligence. The assumption behind sustainability is that a business taking due regard of its environmental impact, its effect on society (particularly within its supply chain) and applying proper governance processes is more likely to prosper than one that does not. There appears to be a good deal of logic to applying these environmental, social and governance criteria. For example, a business that does not husband natural resources responsibly may find those resources exhausted more rapidly or risk an ecological disaster. However, these checks are done to predict a financially viable future, not necessarily to ensure a positive social or environmental impact.

What is the impact investment opportunity?

Like any sector of the market, impact investing offers both good and bad opportunities. Some will focus heavily on the social or environmental benefits that they aim to deliver and miss financial targets; others will do the opposite. The key is to be able to spot business models that reach equilibrium, perhaps because the two objectives are interdependent. This interdependence applies for a number of

Average return expectations by instrument and region

Horizontal bars: Averaged realised returns for benchmark.
Vertical bars: Range of expected returns for impact investment reported, gross annual internal rate of return or yield, in US dollars.



Source: Courtesy of J.P. Morgan Research, Copyright 2010

businesses serving the 'base of the pyramid' (BOP): the four billion people around the globe who earn less than $3,000 a year, according to J. P. Morgan. Businesses that seek success in BOP markets must adapt their products and processes so that they are accessible to that market, thereby linking their financial success to the social benefits they deliver. This has been a common theme among telecoms companies in sub-Saharan Africa.

Growing choice

Impact investing, however, encompasses a wide set of industries. Sustainable forestry, social housing, developing-world finance and agriculture, clean energy and waste management are just a few within a growing market. Naturally, a substantial proportion of impact investments are long-term investments. This comes with the territory, as there is often a need to build a business infrastructure before social or financial benefits accrue. However, the diverse nature of these industries, coupled with the fact that many will be considered 'alternative investments', offers the opportunity for diversified, alternative portfolios to be developed. If J.P. Morgan is only 50% accurate with its market prediction, impact investing is a sector with which we will all need to become familiar. ■

Ritchie Macdonald
is Marketing Director at Truestone Impact Investment Management

When a company miscalculates how much it should pay in order to meet its share of an FSA-imposed industry levy, it faces a difficult choice. Should it keep quiet and save money, or speak up and save its reputation?

Margin for error

HUGH IS CHIEF Executive of Sargasso Stockbrokers, which provides discretionary management services in the UK to nearly 10,000 high net worth retail investors. Although earnings from Sargasso's various activities are growing, helped by successful capital raising last year in which a number of the senior executives (including Hugh) participated, the firm's costs seem always to rise at a faster pace. Hugh is concerned that the firm's required regulatory capital cushion is proving only just sufficient to cope with the extra business and frequently worries about how to balance the apparently conflicting capital requirements of the regulator and the dividend expectations of shareholders.

This challenging environment is affecting everyone in the sector. Last year, a competitor firm, Macadamia, became insolvent with liabilities to its UK customers of about £100m, which it is unable to meet. It is the role of the UK Financial Services Compensation Scheme (FSCS) to compensate investors who lost money from Macadamia's activities. It does this by imposing a special levy on the industry, including on Sargasso.

Last spring, while Rosemary, Sargasso's Head of Compliance, was on annual leave, the firm, along with others in the sector, received a fee tariff request sent by the FSA on behalf of the FSCS. The purpose of the request was to seek information about firms' income from discretionary management activities in order to determine their individual contributions to the compensation claim arising from the Macadamia insolvency. Hugh was not made aware of this return, which was completed by a manager within the compliance department and which declared annual eligible income from discretionary management activities of £4.2m.

As a result of the return, Sargasso has received an invoice from the FSA for £86,000 as its contribution to the levy. This amount far exceeds any FSA fees or levies in previous years and Hugh is astounded by the invoice. Accordingly, he summons Rosemary to ask for an explanation and to check that the invoice is correct.

In response, Rosemary tells Hugh that the figures that were reported to the FSA were calculated based upon an example provided by the regulator. However, because her manager used the wrong formula, the amount was significantly below the correct one. As a result, the true compensation figure might, in fact, be as much as ten times higher.

Hugh is staggered that such an error could have been made and that the figures had been returned to the FSA without the knowledge of any senior executive. At the same time, he wonders how Sargasso can cope with a cash demand of such an unexpectedly large amount, fuming that it is typical of the regulator to assume that everyone has a spare £1m or so waiting for this type of event. He enquires whether what he has now been told is any more accurate than the original figures supplied to the FSA.

After the initial shock wears off, Hugh asks Rosemary urgently to produce the data used to calculate the figures already reported to the FSA, compared with those that she has used to suggest the potentially vastly higher contribution that she has just mentioned to him. Later that day, Rosemary, accompanied by the Finance Director, shows the figures to Hugh. The Finance Director confirms that the higher figure appears to be the right one.

At this point, Hugh wonders what he should do and asks Rosemary whether there is anything that she can think of to improve the situation. She suggests that, at this stage, as the FSA appears to have accepted Sargasso's earlier figures, a pragmatic solution is to pay the invoice, wait until challenged and, at that point, offer to review the figures submitted and pay up as necessary. Although firms are required to make annual returns of their finances to the FSA, Rosemary says that she is unaware of how much liaison there is among the various departments involved. It is conceivable, therefore, that it may be some time, if at all, before Sargasso's error is discovered. This may never happen and, even if it does, it will have provided Sargasso with some useful breathing space while it determines how to resolve the matter.

> *The fact that the company is perceived either to be unable to calculate its own financial position or to have withheld information deliberately may undermine its reputation*

Temporary solution

Hugh considers what Rosemary suggests, saying that he is quite attracted to this course of action, and asks the Finance Director for his opinion. The Finance Director, possibly encouraged by Hugh's reaction, says that he is sure that anyone else in a similar situation would do the same thing. He adds that he does not consider this to be anything other than a way of temporarily dealing with what might otherwise be a serious cash flow problem for Sargasso, which would be in nobody's interest. Although he is aware that firms may have access to a special loan facility to meet levy demands of this nature, he points out that to seek to obtain nearly £1m through this route might shine a rather unwelcome light on Sargasso's finances. In any event, it will have a similar impact on Sargasso's capital position as paying the money itself, which would cause further problems. Finally, he says that if Sargasso acts as Rosemary suggests, it will have more time to carry out a thorough review of its operations and, if necessary, raise further capital. This would help it not only to support its increased operations but also to resolve the issue of the true figure required for the FSA levy on a correctly calculated basis. That must surely be desirable. In response, Hugh says that he understands the Finance Director's point of view and accepts that if Sargasso does not have to pay the higher amount of the FSA levy immediately, it will make life easier in the short term. However, while he recognises that this course might be superficially attractive, he believes that it would actually make life much more difficult all round.

Future consequences

Sargasso may find itself in a position whereby, in order to raise further capital, it needs to invite people to invest in the business or even persuade customers to entrust the firm with their investments. In this situation, the fact that the company is perceived either to be unable to calculate its own financial position or to have withheld information deliberately may undermine its reputation, with an equally drastic outcome. It would be better for Sargasso to seek to control the process by reporting the revised, and presumably now correct, figure to the FSA. The firm should explain the impact that this unexpected levy demand was having on its capital position but that steps were being taken to improve the position in a controlled manner, hopefully with the support of the board and shareholders. At the same time, Hugh would be able to brief board members and seek their support in a positive and open manner, rather than keeping the true situation from them until he had no option other than to go to them as an emergency. Hugh concludes by saying that he feels that, for all the discomfort that it may cause, this is a case where it is vital for the firm to demonstrate its values by being open and honest about the situation, rather than taking the superficially attractive option of keeping quiet and hoping that matters will turn out satisfactorily. ■

What's your view on this dilemma?

Email Richard Mitchell at *richard.mitchell@cisi.org*

Need to Read

The latest publications and study aids supporting CISI qualifications

NEW WORKBOOK

Islamic Finance Qualification in Arabic

The Islamic Finance Qualification (IFQ) has been developed in conjunction with Ecole Supérieure des Affaires in Beirut, one of the leading business schools in the Middle East. It is a ground-breaking qualification that covers Islamic finance from both a technical and a Sharia perspective, providing the first international benchmark in the area of Islamic finance. This qualification will assure regulators, employers and consumers that candidates and employers can perform their roles according to Islamic banking (Sharia) requirements. An Arabic version of the IFQ workbook covers:

- the general principles of Islamic finance
- Islamic contracts
- Islamic banking activities
- Islamic investment funds
- sukuk
- takaful
- financial statements in Islamic banks
- governance in Islamic institutions.

Price: £75

NEW WORKBOOK EDITION

Introduction to Securities & Investment

A new edition (covering exams from 1 July 2011 to 30 June 2012) of the CISI's Introduction to Securities & Investment workbook provides an ideal introduction to the world of financial services. Topics include the economic environment and the participants in the financial services industry, asset classes, derivatives, equities, bonds, investment funds, investment wrappers and the financial services regulatory environment.

This workbook will fulfil the syllabus requirements of both:

- the Introduction to Investment Award
- the Investment Operations Certificate (IOC), also known as the Investment Administration Qualification (IAQ), unit 1.

Price: £75

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Derivatives

The aim of Derivatives is to ensure that individuals develop an understanding of the technical aspects of financial and commodity derivatives so that their employers may seek approved person status for them to advise and deal in the derivatives markets. A new edition of the Derivatives workbook (valid for exams from 11 July 2011 to 10 July 2012) covers:

- an introduction to derivatives
- underlying markets
- financial futures and options
- principles of exchange-traded futures and options
- principles of over-the-counter (OTC) derivatives
- principles of clearing
- delivery and settlement
- trading, hedging and investment strategies
- special regulatory requirements.

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International Investment Management

The International Certificate in Investment Management is the appropriate competence-based qualification targeted at investment professionals engaged around the world in managing investments, dealing in/advising on securities or derivatives and undertaking activities as a broker fund-adviser. A new edition of the International Investment Management workbook (valid for exams from 1 August 2011 to 31 July 2012) covers:

- economics
- financial mathematics and statistics
- industry regulation
- asset classes
- financial markets
- accounting
- investment analysis
- taxation
- portfolio management
- performance measurement.

Price: £75

NEW WORKBOOK

Private Client Advice

This new level 5 unit, part of the level 4 Investment Advice Diploma, has been developed to provide employees advising on packaged products with the planning skills for financial protection, pensions and retirement, building on the core knowledge gained from the FSA Regulation & Professional Integrity and Investment, Risk & Taxation units. The first edition of the Private Client Advice workbook (with a first exam date of 1 June 2011) covers:

- financial planning
- pensions and retirement planning
- application of knowledge and understanding.

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The CISI's Wealth Management qualification is the first career pathway to be launched as part of the Institute's new Masters Programme (CISIM). The CISIM (Wealth Management) has allowed the CISI to blend aspects from existing Diploma modules into a package that offers wealth management firms and practitioners a dedicated professional qualification. The programme comprises three units:

- Applied Wealth Management
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- Financial Markets.

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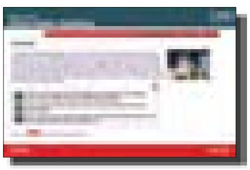
- corporate actions
- investment principles and risk



- market abuse
- professional taxation
- training and competence
- the UK regulatory structure.

Price: Free for all CISI members (excluding student members), otherwise £150 per user.
Visit *cisi.org/refresher* for further information

External specialists

CISI workbooks and elearning products are key revision tools for those taking Institute exams.

The Institute is looking for writers and reviewers of CISI questions, and also authors for its workbooks. It especially wants to hear from question writers and reviewers for its elearning products.

If you are interested in any of these areas, please email *learningresources@cisi.org* with your CV or call *+44(0)20 7645 0750*.

The Institute is also searching for specialists in derivatives to write questions for its level 4 Derivatives exam. While technical expertise in the subject matter is required, training will be provided in question writing for multiple-choice exams. A modest fee will be paid for each question supplied.

To register your interest, please contact Iain Worman on *+44(0)20 7645 0609* or download the application form available via:

http://www.sii.org.uk/SII/WEB5/sii_files/Qualifications/External%20Specialists/ES_Application.pdf

Diary

Events to attend over the coming months

Conferences

Tuesday 14 June 2011 CISI Annual Conference 2011

Tomorrow's World: Risk, Regulation, Reputation & Revolution

Glaziers' Hall, London

The CISI's sixth annual flagship conference will provide a platform to hear success strategies and predictions for the future from industry experts and to discuss them with peers.

Confirmed speakers include:

Robert Barnes
Chartered FCSI,
Managing Director,
UBS Investment Bank

Remco Lenterman
Managing Director,
IMC Financial Markets

Ruth Lea
Economic Adviser,
Arbuthnot Banking
Group

- Mark Hoban MP, Financial Secretary to the Treasury
- Sheila Nicoll, Director of Conduct Policy, FSA
- Kee-Meng Tan, Managing Director, Electronic Market Making, Knight Capital Europe
- Khalid Rashid Al Zayani, Chairman, Al Baraka Islamic Bank
- Talal Al Zain, Chief Executive Officer, Mumtalakat and Chairman, Gulf Air
- Professor Michael Mainelli, Chartered FCSI, Chairman, Z/Yen Group
- Mark Cooke, Barclays Wealth Chief Risk Officer, Managing Director, Barclays Wealth

Tuesday 12 July 2011 Training & Competence 2011

Embedding T & C best practice

America Square Conference Centre, London

Sponsored by 7city Learning, BPP, Eukleia Training and Kaplan Financial

CISI members can attend either of these CISI conferences for just £200 (non-members £400). For further details, visit cisi.org, call +44 (0)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 Hannah Steele, on *+44 (0)20 7645 0648* or email *hannah.steele@cisi.org*

London CPD Events

16 JUNE The New Face of Financial Services Regulation: What Will It Mean in Practice?
Olswang, 90 High Holborn, WC1

20 JUNE Clearing Services for Global Markets
SWIFT, The Corn Exchange, 55 Mark Lane, EC3

22 JUNE The Foreign Account Tax Compliance Act (FATCA) – Your Obligations Under the New US Tax Regime
Grant Thornton, 30 Finsbury Square, EC2

29 JUNE Selecting the Right ETF
BlackRock, Murray House, 1 Royal Mint Court, EC3

To book:
cisi.org/onlinebooking *clientservices@cisi.org* *+44 (0)20 7645 0680*

Professional Courses

Venue: London unless otherwise stated

- **16 JUNE Operational Risk: Taking it to the Next Level £495.00**
- **22 JUNE Training Competence and Managing Expertise in a Regulated Environment £495.00**
- **28/29 JUNE Understanding Regulation and Compliance £895.00**
- **5 JULY Mastering Communication Skills in Financial Services £495.00**
- **12 JULY Pensions & Retirement Planning* £495.00**
- **13/14 JULY Derivatives* (Birmingham) £895.00**
- **19 JULY Anti-Money Laundering and Terrorist Financing Introductory Workshop £495.00**
- **21 JULY Pensions & Retirement Planning* (Manchester) £495.00**
- **2/3 AUGUST Derivatives* £895.00**
- **16 AUGUST Investment Principles & Risk (PCIAM)* (half day) £295.00**
- **16 AUGUST Investment Principles & Risk (IAC)* £495.00**
- **16/17 AUGUST Investment Principles & Risk (LSE)* £895.00**

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

Member and Fellow discounts

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

Extra professional courses discount: make two bookings together and get a 10% discount; three bookings together, a 15% discount; four or more bookings together, a 20% discount.

To book:
cisi.org ***clientservices@cisi.org*** ***+44 (0)20 7645 0680***

Regional Events

15 JUNE Politics v Economic Drivers in Asset Management
Birmingham & West Midlands
TBC

23 JUNE AGM
Guernsey
Collins Stewart, Hirzel House, Smith Street, St Peter Port, Guernsey

7 JULY Annual Dinner
Yorkshire
Mint Hotel, Granary Wharf, 2 Wharf Approach, Leeds
(Guest speaker: former MP Lembit Opik)

12 JULY Regulatory Update
Yorkshire
Cosmopolitan Hotel, 2 Lower Briggate, Leeds

13 JULY Regulatory Update
Yorkshire
TBC

28 JULY Annual Dinner
East Anglia
Norwich Cathedral Refectory, The Close, Norwich

3 AUGUST Golf Day
Manchester & District
Hale Golf Course, Rappax Road Hale, Altrincham

To book:
cisi.org/onlinebooking *region@cisi.org* *+44 (0)20 7645 0652*

TRAINING

Directors' forum changes name


Sandra Jacobs

The CISI training directors' forum has changed its name – it is now called the training & competence interest group. The new name has been introduced to make clear the focus of the group on training and competence and the broader nature of its membership. However, the group itself will not change in any way.

Four times a year, the group will meet in central London to consider issues linked to training, competence and HR, including regulatory and legislative developments. Members will discuss how they are approaching these areas within their own organisations.

Discussions will be held under the Chatham House rule, with a chance to network and exchange ideas with colleagues, including representatives from the top 50 investment banks that deal with implementation of training.

The group will continue to be of interest predominantly to those in a senior training role.

Anyone involved in matters related to learning and development, organisational development or training and competence may find it relevant. Those working in significant influence functions, compliance, risk, HR or the approved persons regime can also benefit.

Key features include:

- attendance counts towards the CISI CPD scheme
- you can invite colleagues and business associates to meetings
- events are open to both CISI members and non-members, subject to availability.

Sandra Jacobs, who chairs the group, said: "The new name, training & competence interest group, reflects exactly what this group is all about. As such, anyone who has an interest in training and competence at all levels and in all fields of the financial services industry is welcome to attend."

Next meeting

Date: 14 July
Time: 12 noon–2pm (a light lunch is served)
Speaker: Steve Giles, Consultant, Sg2, Financial Risk Management Training
Topic: The Bribery Act 2010 – A Practical Guide
Venue: CISI, 8 Eastcheap EC3

To book on the event, or if you have any questions, please contact Claire Parish at *tcigroup@cisi.org*
More information can be found at cisi.org/tcigroup

Professional interest forums

Calling all corporate financiers


Clive Garston

Did you know that, as a CISI member, you can sign up for free to the mailing list of the CISI's corporate finance professional interest forum (PIF)? Forum members meet six times a year to network over lunch in London and discuss topical issues in a confidential setting while earning CPD.

Recent meetings have included a regulatory update and a Q&A session with Brian Winterflood FCSI(Hon), Life President of Winterflood Securities. Attendees commented that the events were both "informative and current" and "very entertaining". Forthcoming sessions include an economics debate and a discussion about opportunities in clean technology.

If lunchtime seminars aren't suitable for you, you might want to check out the forum's annual black tie dinner, which will be held on 28 September this year.

A key feature of the forum is that all events are planned by members for members, with ten committee members meeting regularly to plan events. Committee elections are held in March each year.

The newest addition to the committee, Clive Garston CF FCSI, said: "I've attended meetings of the forum since its inception, finding them most informative and an opportunity to meet others involved in corporate finance. When a vacancy came up on the committee, I decided that I would like to assist the forum in its development."

To join the 230 members already signed up to the mailing list of the corporate finance PIF, please email *corporatefinanceforum@cisi.org*

There are seven PIFs, covering compliance, corporate finance, Islamic finance, IT, operations, risk and wealth management.

Forthcoming meetings include:

Corporate Finance Forum
Date: 16 June
Topic: Crisis Economics – What Failed? What Needs to Change?

Islamic Finance Forum
Date: 21 June
Topic: Islamic Funding for All

Risk Forum
Date: 23 June
Topic: Investment Horizons

Operations Forum
Date: 29 June
Topic: Consolidation of MTFs and Clearing Houses

IT Forum
Date: 30 June
Topic: Migrations of In-house Solutions from One Core Platform to Another

More information can be found at cisi.org/pifs

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Signe Stenbaek

This list includes membership admissions and upgrades from February 2011

Answers to the quiz from page 10. Question: 1:C, 2:B, 3:B, 4:D

Andrew Bradford as a baby with his parents

...and a few years later

Window on the past

Andrew Bradford ACSI is a CISI workbook author but his latest writing project has nothing to do with financial services. **Lora Benson** reports

Andrew Bradford ACSI

FOR HIS FIRST foray into non-technical writing, Andrew Bradford did not have to struggle for a compelling story. In a book entitled *Live Eels and Grand Pianos*, Andrew tells the tale of his parents, Charlie and Kathy, who were both severely disabled by polio as young children, highlighting the courage they showed in adversity.

Andrew says: "I regard it not only as a family memoir but also as a valuable contribution to the social history of the 20th century. My parents dealt with a society that alternated between hostility and prejudice to their difference and kindness towards their situation.

"They defied convention by finding work – dad for many years in factories and mum as a seamstress – marrying and raising me. My parents were also tireless campaigners for the rights of those with disabilities.

"In the 1940s, the idea of seriously disabled people having a family was so unusual that my birth was reported in the national press. I wanted younger generations to understand how difficult life was for anyone with disabilities in that era."

Andrew has worked in financial services since 1976, when he became a bond settlement clerk at Merrill Lynch. For the past five years, he has been an independent consultant and technical author and has used his writing skills as an external specialist for the Chartered Institute for Securities & Investment (CISI). He has written both the IT in Investment Operations and Asset Servicing CISI study aids.

Live Eels and Grand Pianos came about after Andrew was attracted by a competition run by a theatre in Edmonton, north London, where he grew up. The theatre wanted to dramatise stories about local life and Andrew wrote a play about his parents, called *The Window*, which won the contest and was staged. It inspired him to develop the story. Andrew attended creative-writing classes to help him with the project, realising that the skills needed to produce the book were quite different from those required in his technical writing.

"In technical writing you aim to be clear and unambiguous, and give the reader all they need to know as soon as possible. In memoir writing the technique is to keep the reader wondering why something is like it is – you need an element of suspense and surprise."

His greatest challenge in writing the book was that neither of his parents were alive to provide information. His father died in 1979, aged 73, and his mother passed away in 1995, aged 83. But through speaking to older family members and friends, he pieced together a comprehensive picture of their lives.

The book took about three years for Andrew to complete, with a family photo being used as the theme for each chapter. The offbeat title harks back to Andrew's upbringing. He recalls: "When I was a small boy, my mother used to take me shopping in Edmonton in her hand-propelled tricycle. Two things on sale were live eels and grand pianos – you can't buy either of them there now!"

Andrew has now well and truly embraced creative writing and is developing a collection of short stories, some fictional and some a personal memoir. ■

To request a copy of the book and read some of Andrew's short stories, visit ***andrewbradfordauthor.com***

An extract from *Live Eels and Grand Pianos*

Kathy was a talented needlewoman. She left school at 14 and worked as a tailoress until she married. Her first job lasted one year, as did her second job and then her third. When she was sacked for the third time she asked her employer why she was being dismissed, and she was told that the boss had found out that due to her disability, the employer would have to pay extra national insurance contributions, backdated to the day that she started.

National Insurance in the 1930s was a payment made by the employer to the Government to provide compensation for its employees in the event of an industrial injury, and no doubt some government actuary had decided that disabled workers were a higher risk and had to pay higher contributions. Kathy's employer said that he couldn't afford to pay that. Somebody else could do the job more cheaply. She had to go. She therefore came to an arrangement that she would reimburse the firm for the extra national insurance stamp. She did this for ten years until the start of World War II, and she recorded all the payments she made in a series of notebooks. In 1938 she attended one of the first meetings of what became the British Polio Fellowship, a self-help organisation for people with her disability. A few years later the Polio Fellowship submitted these notebooks as evidence to the Beveridge Commission, and the national insurance rules were changed.

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