SECURITIES & INVESTMENT
SEPTEMBER 2011

REVIEW

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

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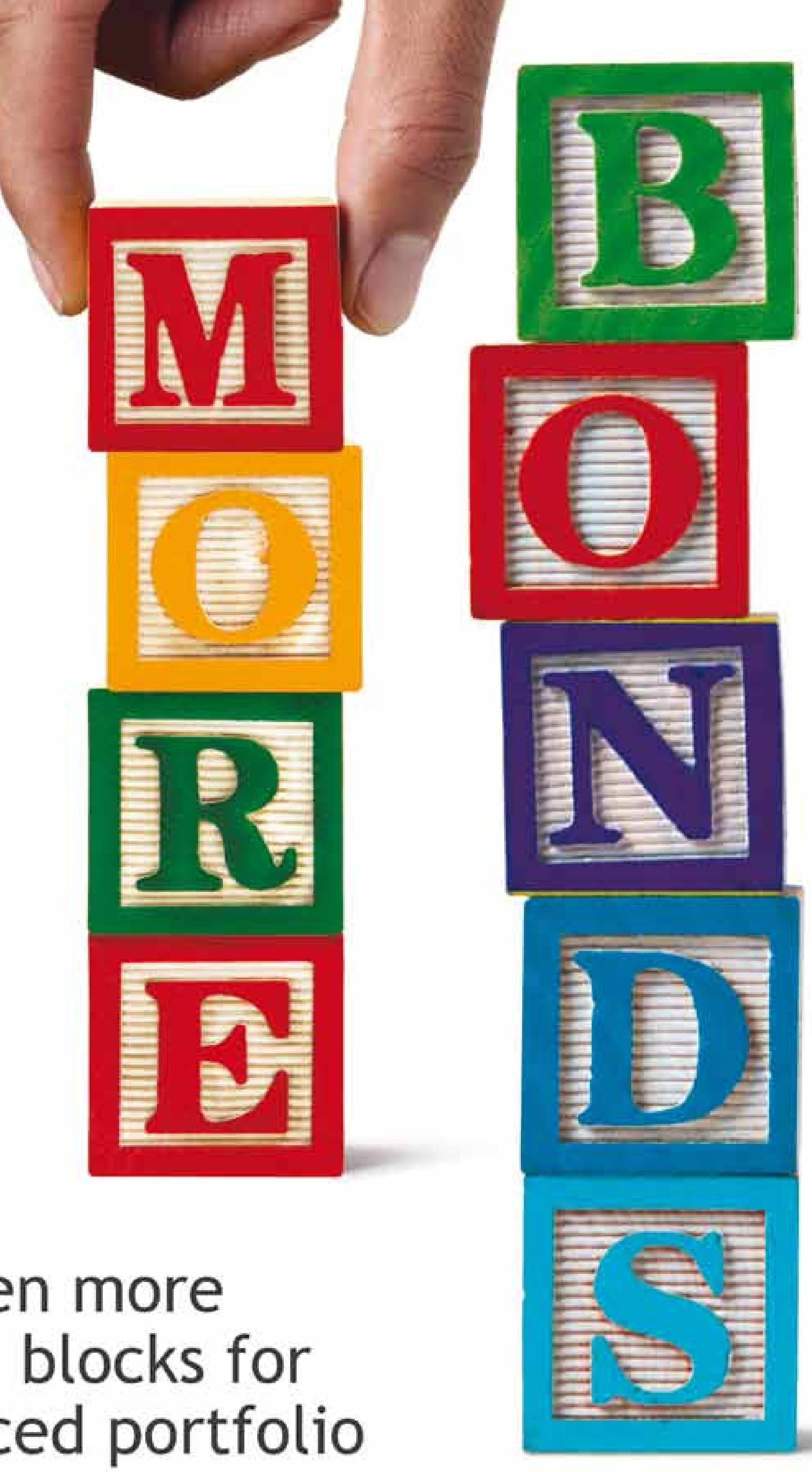
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Commissioning Editor
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Agency Managing Editor
James Cash
Production Director
John Faulkner
Managing Director
Claire Oldfield
Chief Executive
Martin MacConnol
Advertising Sales
Yanina Stachura
+44 20 7010 0945
yanina.stachura@wardour.co.uk
Cover illustration
Crush / agencyrush.com

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34–43 Russell Street
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Fax: +44 20 7010 0900
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Communications Editor, Chartered Institute for Securities & Investment
Richard Mitchell
8 Eastcheap, London EC3M 1AE
Telephone: +44 20 7645 0749
Email: richard.mitchell@cisi.org

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Called to account

CISI OPINION

Has the EU inadvertently found the perfect way to increase competition in retail banking?

THERE HAS BEEN much talk of the requirement by the EU for Lloyds Banking Group to sell off more than 600 retail branches. However, what is perhaps less acknowledged is that the customers of those branches are also being sold. In as little as 12 months' time, around three million people who bank with Lloyds may find that their personal current, loan and savings accounts have been compulsorily transferred without their express consent. In all likelihood, their accounts will go to a brand-new, untested start-up organisation that today does not have either a single customer or branch. Lloyds' Chief Executive said, in August 2011, that the bank expected to identify the purchaser before the end of the year. One in five existing Lloyds customers are in for a shock, but they do not yet know who they are. What is known is that Lloyds needs to physically sell the bricks and mortar of sufficient branches to equate to 4.6% of the industry market in terms of customers. There is a 20% chance that, if you are a Lloyds customer, you will wake up one morning next year and find that your account has moved. Furthermore, to ensure that Lloyds does not cherry-pick and retain its most-profitable branches or customers, the divestment requirement stipulates that the branches must be located in areas which, when viewed as a group, are within two miles of 43% of the UK's population. Additionally, the average ground-floor area of each branch must be at least 220 square metres, and the average retail income of the customers transferred is not to be less than the average income for Lloyds customers overall. This European-imposed requirement is the price for allowing the bank to access temporary funding from the Government, but tramples on the rights of consumers. This type of action is more usually associated with command economies such as North Korea, rather than the liberal free market and financial centre of the world. The new bank will clearly have different prices and different products, but there is no requirement that these are any more attractive than the existing Lloyds products and no incentive for the new provider to make them so, since the customers don't have a choice whether they move or stay. Those who think they will lose out or who wish to stay with their existing provider can, of course, close their accounts and move elsewhere. However, it is unlikely that they will be able to move or return to another Lloyds account as the whole point of the exercise is to create sufficient critical mass for a new bank to be successful. Taken to a logical conclusion, if this were allowed,

In the UK, an individual is more likely to switch their spouse than their bank account

then the new owners could end up acquiring some expensive real estate, but few customers. The EU erroneously believes that this blunt method of encouraging competition is, from a macro perspective, the best way of overcoming the significant barriers to entry for any new retail bank. Perhaps without realising it, however, the EU may have stumbled upon a far better and more strategic solution. Hidden away in the small print of the term sheet sent out by Lloyds is its greatest achievement: the requirement for account-number portability. This means that the three million people being transferred do not have to change their sort codes and account numbers. If this significant advance occurred industry-wide, it would provide the biggest boost to real competition between the banks, along with reforming the money-laundering requirements. In the UK, an individual is more likely to switch their spouse than their bank account. Banks have profited from the significant hassle in moving, often cited as leading to 'customer inertia'. However, an individual's ability to retain the same account number and sort code means that, at a stroke, moving becomes almost as easy as changing mobile phone provider (money-laundering requirements excepted). The parallel with the telephone industry is striking. In 1991, the then-regulator, Oftel, tried to introduce number portability for phone customers as it was "convinced that the absence of number portability is a major barrier to customers changing operator, and hence to the development of effective competition here in the UK". It took a Monopolies and Mergers Commission report for portability to be introduced in 1995. We have exactly the same problem in banking, so why not use a similar, tried-and-tested solution? The way to encourage and promote greater competition in the retail banking sector is not to transfer involuntarily and unilaterally the accounts of three million people to a different bank. The solution lies in forcing through account-number portability for the whole industry. The technology is now clearly available; it is the will that is lacking. ■

Upfront

News and views from the CISI

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

APPOINTMENT

CISI Chairman elected Sheriff of the City

Alan Yarrow, CISI Chairman and Sheriff of the City of London

Alan Yarrow, Chartered FCSI(Hon) and CISI Chairman, has been elected Sheriff of the City of London for the year 2011/12.

The election of the two new Sheriffs of London took place at the Guildhall of the City of London. Wendy Mead takes up the other Sheriff position.

The office of Sheriff dates back to the seventh century and is of long-standing importance to the government of the City of London. The Sheriffs attend sessions in the Central Criminal Court at the Old Bailey. They also support the Lord Mayor in his official duties and in promoting UK financial services and the City of London through an extensive programme of overseas visits. To be considered as a candidate for the office of Lord Mayor, an Alderman must previously have served as Sheriff.

Alan, who is already an Alderman, said: "It is an honour to take on this role and I look forward to executing my shrieval duties, including the promotion of the City of London as a world leader in international financial and business services."

PUBLICATIONS

Stay up to date

The latest edition of the CISI *Regulatory Update* is now available online in the members' area of the Institute's website.

It looks at many regulatory changes since the last edition. These include the EU finally translating into detailed rules much of the G20's regulatory strategy.

The FSA has focused on private wealth managers' relations with their customers. It has speeded up its programme to improve investor protection through the Retail Distribution Review, addressing suitability, financial promotions and complaints handling. At the EU level, the securities regulator has started to write a single EU rulebook, starting with UCITS.

Many practical and important changes in day-to-day regulation are also covered, such as the revived client asset form, a range of new consultation guidance and the key investor information document for funds.

View the edition at *cisi.org/regupdate*

AGM

Vote on Institute resolutions

The Institute's Annual General Meeting (AGM) will be held at the CISI, 8 Eastcheap, London EC3M 1AE on **Thursday 22 September 2011 at 10.30am**. Fellows (FCSI) and Members (MCSI) of the Institute may vote on the resolutions by:

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

Voting forms, whether completed online or sent by post, must be received by the Company Secretary not later than 11am on 20 September 2011.

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 colourful illustration of the Russian dolls in the July/August issue of the *S&IR* caught my eye and as a result I read the article, which appeared to have been written by the Ministry of Propaganda. So partial was this that I am surprised that it got past the publication's Editorial Panel.

As a minimum, the article should have shown the dolls shrinking as well as growing. After all, investments can go down as well as up and, given Russia's structural weaknesses, this is just as likely a scenario.
Andrew Hall, Affiliate member, London

Dear *S&IR*,
I must respond to a recent City View opinion article in the *S&IR* entitled 'Baby boomers: job blockers?'

The piece argued that scrapping the compulsory retirement age of 65 will reduce job opportunities for the young. It states: "If there are no leavers, then there will be no vacancies and ultimately no joiners…"
The response can only be: "No, no, a thousand times no". This argument is the latest version of the discredited 'lump of labour' fallacy – the idea that there is a fixed amount of work to be done in the world. The suggestion is that any increase in the amount each worker can produce reduces the number of available jobs and that any job given to an older employee is somehow stolen from a younger one.

Union leaders have worried for years about computerisation causing job losses. Nationalist politicians blame immigrant workers for job losses. Unfortunately, governments listen to them. This new demographic variant is just as much nonsense, of course. Those highly paid senior workers either spend their high incomes or save them. The former boosts consumption, the latter helps fund investment. And half of those incomes go in tax to fund public services.

You might as well rephrase the fallacy as workers over 6ft 3in are taking work from the petite.
Mark Brett FCSI, London

Dear *S&IR*,
In his column in the July/August *S&IR*, Christopher Adams, the *Financial Times'* Markets Editor, states: "America's debt burden as a percentage of its GDP is staggering. Add up corporate, household, financial, government and other debt and it exceeds the 300% high during the 1930s."

That may be so but the UK is even more indebted. The focus on Government debt blinds most people to the fact that total UK debt is around a staggering 400% of GDP – only slightly less than Japan. The UK has some lean years ahead – it is going to take a long time to run down that level of debt.
Andrew Brown ACSI, RBS, London

14,176 *The number of registered users of the CISI CPD scheme. Free to all members, the scheme provides users with an online CPD log to record their development activities in line with industry best practice (see article below)*

MEMBERSHIP BENEFITS

CPD activities are now easier to record

The CISI continuing professional development (CPD) scheme has been improved to offer even more to Institute members.

The system will continue to automatically record all CISI CPD activities undertaken by members, such as attending Institute events, in their online log. In addition, from this month, members will be able to upload evidence directly to their log of other CPD undertaken, such as through their firm or a training provider.

The system has also been made more user-friendly. Thanks to a clear new visual guide, members will more easily be able to track their progress towards their target of completing 35 hours of relevant development activity annually. It will also be simple for members to search for and organise their CPD activities.

Alastair Pope, CISI Assistant Director, Membership and CPD, said: "The CISI annual survey of its members showed that CPD membership benefits were valued above all others. These improvements will help to make a CPD scheme that is already highly regarded within the industry even better.

"The new CPD system is fully compliant with FSA guidelines under the Retail Distribution Review (RDR). For example, a new gap-fill logging facility and the ability to record planning and outcomes means that those members affected by the RDR can have full confidence in a system that is designed to meet their needs."

All members will need to switch to using the new CPD scheme by mid-December, at which time their existing log will cease to be available. Existing CPD records will be transferred automatically when a member starts to use the new CPD log.

Full instructions of how to use the new CPD and gap-fill log, and an accompanying video demonstration, can be found in the 'Help' section of the new CPD log at *cisi.org/cpdlogin*

Online boost for members

My CISI is a new members' area of the Institute website personalised to your needs. Log in at *cisi.org/mycisi* and you can:

- find out about the range of professional and personal membership benefits offered by the Institute
- view your CPD records
- access CISI TV directly, enabling you to watch a selection of the Institute's most popular CPD events
- review your membership history, including progression through different grades of membership, CISI qualifications taken and past events attended
- update your personal details and more.

To access the site, you will need to enter your membership number and password.

CANDIDATE UPDATE

Help with CISI exams

Are you preparing for a CISI exam? If so, you can benefit by visiting the redesigned Candidate Update section of the CISI website.

Providing exam candidates with learning materials and the latest news and developments affecting exam syllabuses, it is essential reading.

This includes updates on how recent changes in legislation are dealt with, as well as other useful information, such as how knowledge of specific tax rates/bands is tested.

For more information, visit *cisi.org/candidateupdate*

SURVEY

Interest rate rise unlikely

Half of financial services players (51%) do not expect the Bank of England to raise the UK interest rate for at least 12 months, a CISI survey shows.

A further 22% anticipate that the rate will remain unchanged for nine months, while 17% think an increase is six months away. Only 10% predict that the rate will be hiked from its record low of 0.5% before the end of 2011.

Comments from those taking part included that it would be "economic suicide" to raise the rate in the near future as business and personal finance is "maxed out".

"Increasing rates will have a severe recessional effect and create unrest that has not been seen since the 1920s," warned the contributor.

In another CISI survey, two-thirds of respondents said that they supported proposals to ring-fence a bank's investment operations from its retail business in order to improve financial stability. Of those, 32% were strongly in favour and 35% agreed on balance. One supporter argued that "retail clients need protection from rogue dealers".

"Increasing rates will create unrest that has not been seen since the 1920s"

The 33% opposed to the splitting of investment and retail businesses included 18% who were strongly against the measure. An opponent warned that free current accounts could become a thing of the past due to ring-fencing, as banks pass on the higher costs caused by constraints on their business.

In April, the Independent Commission on Banking (ICB) called for ring-fencing in its interim proposals to reform the banking sector, a measure that was supported by Chancellor George Osborne. The ICB is scheduled to publish its final report on 12 September.

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

PUBLICATIONS

Report and accounts

By now, CISI members should have received links to the Institute's 2010/11 Report and Accounts online at *cisi.org/reportandaccounts*

If you have not received the email, or if you would like a hard copy, please email

reportandaccounts@cisi.org

New graduate careers guide

Is your son or daughter considering working in the financial services industry? If so, Inside Careers, the only graduate career guide to focus on the securities and investment sector, is essential reading.

The edition includes advice from industry experts, employer profiles, graduate vacancies and details of an email service for news and vacancies.

Published in partnership with the CISI, the 2011/12 *Inside Careers Guide to Banking, Securities & Investments*, is available at

insidecareers.co.uk/ban

EFFAS

European collaboration

The CISI has become a full member of the European Federation of Financial Analysts Societies (EFFAS).

A pan-European grouping, EFFAS brings together leading experts from all of Europe's equity and fixed-income markets.

The CISI's membership of EFFAS means that Institute members can access a full range of EFFAS's own continuing professional development activities, such as seminars.

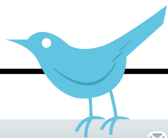
CISI Managing Director Ruth Martin said: "We are very pleased to have become a member of EFFAS, joining key European countries including France, Spain, Germany and Italy. This will enable us to learn from our partners in Europe about their experiences working at the sharp end of the European financial services market. It will be particularly beneficial for our members working in the wholesale markets."

Giampaolo Trasi, Chairman of EFFAS, said: "We are particularly pleased with the CISI's decision, which brings the UK back among the EFFAS full membership. We are convinced that this represents a milestone in a long and successful co-operation between the CISI and EFFAS."

A meeting of the members of EFFAS gets under way

3,837

The number of hours of CISI TV that Institute members have viewed. Enabling members to watch popular CPD events at any time, the new TV channel can be accessed at *cisi.org/cisitv*



SELECT BENEFITS

Tax-return savings

CISI members in the UK can benefit from an exclusive fixed-fee tax-return service costing £110.

The deal is offered by TWD Accountants, the UK's leading provider of fixed-fee tax returns. The fee covers preparation of your tax return and all relevant schedules (including capital gains tax and rental income from one property) and liaising with HM Revenue & Customs. In addition, there is a full money-back guarantee if you are not satisfied with the service.

TWDaccountants ...affordable expertise

For more information, or to use the service, telephone *0845 129 7017* quoting ref PHCISI or visit CISI Select Benefits at *cisi.org/memberlogin*

The Select Benefits programme enables CISI members to save on a broad range of products and services.

CISI Select Benefits is managed on behalf of the CISI by Parliament Hill Ltd of 127 Cheapside, London, EC2V 6BT. Neither is part of the same group as the provider.

ONLINE

BEST OF THE BLOGS

1 tinyurl.com/rising-cost-of-food
The *Guardian*'s DataBlog has comprehensive figures on global food prices since 1990. It gives the food price index and breaks that down into five sections: meat, dairy, cereals, oils and sugar. For May 2011, the slight drop in the cost of cereals and sugar was offset by increases in meat and dairy prices, backing up the theory that developing nations' demand for meat is driving up costs.

2 tinyurl.com/chinese-pork-prices
Tom Orlik for the *Wall Street Journal*'s China Realtime Report blog says that an inflation forecast of 6% for China is all down to the price of pork. Ministry of Commerce data showed pork prices in mid-June at a record high of 23.6 yuan (£2.25) per kilogram, up 62% year-on-year. As China's households become steadily richer, he says, "increases in wealth translate into demand for more meat in the diet". With pork as the largest food part – at 10% – of China's consumer prices index, the explosion in price has had a significant impact on inflation in the country as a whole.

3 tinyurl.com/investing-in-food
Maike Currie at the *Investors Chronicle* Investment Guides blog runs through the pros and cons of investing in food production. She points to fertiliser producers such as Potash Corp as potential beneficiaries of the increased worldwide demand. In terms of countries – like Brazil – that have capacity for increased arable land, investment plans have to be made for the long term. However, Currie says, agricultural stocks are volatile – they tend to be cyclical and heavily influenced by weather.

4 tinyurl.com/whartontoday
The Knowledge Today blog from the Wharton School at the University of Pennsylvania looks at the role of food shortages in the uprisings in the Arab world earlier this year. Even in oil-rich Gulf states, there are problems. The UAE's federal government, for example, has asked retailers to agree to a six-month price freeze on certain items. The UAE is also one of the top purchasers of global farmland, as it looks to gain direct access to crops and save on import spending.

See page 12 for a full discussion of rising food prices.

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

CLAY '*MUDLARK*' HARRIS

Back story on Mark Roelands of Bank of New York Mellon

Mark Roelands has a hearty appetite for learning, as shown by his hat-trick of successes at this year's CISI awards to recognise top performers in its exams.

A reporting specialist at Bank of New York (BNY) Mellon's custody and administration centre in Breda, the Netherlands, he was joint winner for the Investment Operations Certificate (IOC), also known as the Investment Administration Qualification. Mark also scored the top mark for the Over-the-Counter (OTC) Derivatives Administration unit and was among winners for the Asset Servicing exam.

These distinctions, however, were neither the beginning nor the end of Mark's desire to learn. He grew up near Breda and attended Erasmus University in Rotterdam, starting in business administration. "The Bachelor's degree was quite easy: read the book, take the exam – that's it," he says.

For his Master's, he chose financial management, combining accounting and control with finance and investment. "I learned more in one year than in the previous three," he says. It included a term abroad at the University of Illinois. One course, managing financial risk for insurers, was especially useful. "One day we were talking about Lehman. The professor said: 'This can't go on forever', and the next day it collapsed."

On returning to the Netherlands, Mark helped a professor collect data about executive compensation. He used this data in his thesis examining long-term incentive plans at listed Dutch companies, finding no correlation with corporate performance.

> "One day the professor said: 'Lehman can't go on forever' – the next day it collapsed"

A short internship with HR consultancy Hewitt Associates, now Aon Hewitt, was his first experience in the workplace. Although a quiet period with not much going on, it gave him the practical exposure that he had lacked.

After graduating in 2008, Mark spent two months looking for a job before finding one on his doorstep at BNY Mellon.

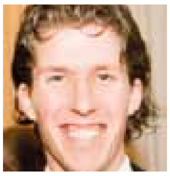
He started as an accounting specialist. For one client, a Dutch pension fund, he prepared the monthly investment report for trustees.

Ten months later, he became a reporting specialist in the same department. This involved wider responsibilities and more client contact, with tasks such as preparing reports for Dutch regulators. Mark's team handles all clients served by BNY Mellon's institutional accounting department in Breda, so there is a lot of variety.

The IOC has already proven to be much more useful than just a piece of paper. Reporting has become more focused on risk, and he finds that knowledge gained in his IOC studies, especially from the OTC derivatives module, has daily practical applications.

Clients themselves have become keener to understand the complexity of risk and the IOC has equipped Mark to help them to do that. It also contributed to his role in helping BNY Mellon develop new internal reporting methods, for which the bank recognised him with a region-wide staff award.

So far, it seems, Mark's pursuit of knowledge has paid off. "The most important thing at this point in my career is to keep on learning."



Mark Roelands

Reporting Specialist, Bank of New York Mellon, Breda, the Netherlands

Do you have a back office story?
mudlarklives@hotmail.co.uk

Illustration: Luke Wilson

REGIONAL EVENTS

Guest speakers add spice to dinners

A well-known former politician and a golfer proved popular guest speakers at annual dinners staged by two of the CISI's regional branches in the UK.

Ex-Liberal Democrat MP Lembit Opik, whose colourful life has included an appearance on reality TV show *I'm a Celebrity... Get Me Out of Here!*, spoke at the Yorkshire branch event. Sponsored by ETF Securities and held at the Mint Hotel, Leeds, the dinner attracted 90 guests.

Peter McGovern entertained more than 130 guests at the Birmingham & West Midlands dinner, taking a light-hearted look at golf and life. The event was sponsored by Legal & General, HSBC Asset Management & M&G Limited. Attendees included Anita Ward, Lord Mayor of Birmingham.

At both dinners, updates were given on local committee activities by the branch Presidents: Alan Fleming, Chartered FCSI, in Yorkshire and Gordon Harvey, Chartered FCSI, in Birmingham & West Midlands.

CISI Chief Executive Simon Culhane, Chartered FCSI, and Regional Director Richard Bennett attended the Yorkshire and Birmingham events respectively in order to highlight to guests the latest benefits for Institute members, including CISI TV.

Left: Yorkshire branch President Alan Fleming, Chartered FCSI, left, with Lembit Opik

Below, left to right: guest speaker Peter McGovern; Anita Ward, Lord Mayor of Birmingham; Vincent Hockley, the Lord Mayor's consort; Gordon Harvey, Chartered FCSI, President, CISI Birmingham & West Midlands; Richard Bennett, Institute Regional Director

Ask the experts...

Dan Palmer

Head of Market Development, BSI

COMPLIANCE

A new compliance framework for regulated financial services firms

BS 8453 is a new compliance standard launched by the British Standards Institution (BSI) in March 2011. This voluntary standard sets out good practice for a compliance function. The first initiative of its kind, it is applicable across the whole regulated sector: wholesale, retail and investment.

Why is it needed?

The compliance function is critical in ensuring that a financial services firm stays within the regulations, with compliance officers thought of as the internal police. However, senior management often undervalues and under-resources compliance. More than 70% of compliance officers surveyed in 2009 by Complinet felt the profession could benefit from the development of a standard – both as a benchmarking tool and to help demonstrate competence internally and externally.

In 2010, the FSA levied fines of £89m on firms for regulatory breaches. Many included failures in the systems and controls designed to prevent market abuse, misselling and financial crime, and flaws in the compliance arrangements relating to investment advice. Along with the compliance personnel and those in controlled functions, the role of senior management is crucial in fostering a strong 'compliance culture' through adequate resourcing and a commitment to training.

Any compliance staff – whether working in a large department or independently – will have wondered 'How am I doing?' and 'What are other compliance departments doing?' The new standard helps with these questions by pointing out areas that need to be considered.

How can it help?

The standard aims to help firms put in place best practice in their systems and controls for compliance monitoring, reporting, risk assessment and training. It could help to lower the risk of compliance failures and, as with other standards, create operational efficiencies.

Those in compliance oversight or internal audit roles can use the standard to assess their existing functions. Smaller firms may find value in following the standard when establishing a new compliance department. Or they might use it as a resource to help review their existing procedures for dealing with compliance risks ahead of regulatory visits.

BS 8453 makes direct reference to the senior management arrangements, systems and controls elements of the FSA Handbook, providing practical interpretation of the key management principles and monitoring processes required for effective compliance operations. BS 8453 does not duplicate the FSA Handbook requirements; it complements them. The FSA has welcomed its development as providing "a valuable resource about the theory and practice of compliance". Firms using the standard can either self-certify or seek third-party certification from an independent certification body.

Who developed it?

The BSI-facilitated committee included representatives from major trade associations, professional bodies and industry practitioners. The CISI's compliance professional interest forum and its Chairman, Julian Sampson, were involved, and the forum committee studied an early draft of the standard.

At the launch of BS 8453, Julian said that the standard was "not a destination for compliance departments, but a journey"; as with all journeys, you learn as you travel and the point is not necessarily to arrive. Compliance staff will consider their own processes and learn by comparing them with the standard.

You can buy BS 8453 electronically or in print from the BSI shop at *shop.bsigroup.com*

BSI would like to hear from firms that have already started to use BS 8453 to understand more about their experiences. It intends to develop tailored guidance to sit alongside the standard that is relevant to different types of firm. For further information, please contact Nick Fleming at *nick.fleming@bsigroup.com*

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 contact the client services department on ***+44 20 7645 0680*** or visit ***cisi.org***

Q1 Best execution is a concept that arises under which rules sourcebook?
A) COBS *B)* PERG *C)* PRIN *D)* MAR

Q2 Inside information is:
A) Rumour that is true *B)* Information held only by the managing director of a company
C) Precise, price-sensitive information that is specific to a security and not public
D) Information held by the FSA

Q3 What is the aim of the E-Commerce Directive?
A) To eliminate internet scams and fraud *B)* To enable companies to sell their goods and services internationally *C)* To compel financial services providers to offer electronic access to their services *D)* To establish a common legal framework across the countries of the EU

Q4 Why is price stabilisation carried out?
A) To raise money for the lead manager *B)* To ensure that issuers of securities cannot fail to launch the whole issue *C)* Because if there is an oversupply of shares, there is a danger that the price will fall more sharply than would be the case in a 'normal' market *D)* Because if the stock market is volatile, investors could lose more money than they can afford

Reasons *to be cheerful?*

Can the growth in dividends be sustained given the uncertain outlook at home and in the eurozone?

DIVIDENDS ARE back. Judging by the strong growth in company payouts over recent months, investors pondering 4%-plus inflation and unimpressed by the paltry returns on offer in cash savings could do worse than to plump for a nice, juicy blue-chip stock.

The latest data from Capita Registrars, monitoring UK dividends, makes for an eye-opening read. Payments to equity investors jumped by 27% year-on-year to £19.1bn in the second quarter of 2011. Even after adjusting for one-offs and BP's cancelled dividend of a year ago, there has been an underlying rise in payouts for five successive quarters.

Companies, it seems, have put the financial crisis behind them. Many are starting to release some of that fiercely hoarded cash they have been sitting on. And, if you pick the right stocks, an old-fashioned approach to investing has rewarded income seekers.

The dividend recovery has been strongest in mining, with payouts quadrupling. High metals prices have brought in bumper cashflows. Life insurers have made big increases and tobacco companies have raised their dividends sharply.

There are other examples. Verizon Communications said in July that Verizon Wireless, its US mobile phone joint venture with the UK's Vodafone, would pay a long-awaited dividend of $10bn next January, the first since 2005. Vodafone will respond with a special £2bn payout to its shareholders next February.

In a bull market, investors tend to concentrate on capital growth rather than dividend income. But, with a prospective yield for the FTSE 100 of 3.6%, equities are looking more attractive than gilts (UK Government bonds), where the yield on ten-year debt has dropped to about 3.2%. Recent savings rates compare poorly, at just 2.7%.

The catch for investors is whether this growth in dividends can be sustained now that commodity prices have pulled back from their highs and UK growth prospects look far from assured. The worsening of the sovereign debt crisis in Europe and the US's fiscal problems, moreover, have heightened the risks for stock markets.

Those wider risks have divided strategists' opinions. On the assumption that the eurozone avoids a disorderly default, Citigroup's Jonathan Stubbs believes the equity market can deliver double-digit returns in the second half of the year, with the FTSE 100 pushing towards 6,750 by the end of 2011. Not everyone is as upbeat. Morgan Stanley's Graham Secker is sceptical that Europe's leaders will find a comprehensive solution to the crisis soon.

At a corporate level, UBS analysts, noting that the FTSE 100 has been rangebound below 6,000 for most of the past year, say that three-month earnings momentum has steadily disappeared. There were more downgrades than upgrades in sales estimates, and dividend momentum turned negative for the first time in two years in July. For now, the greater drag on the FTSE's prospects is likely to be the worsening eurozone crisis.

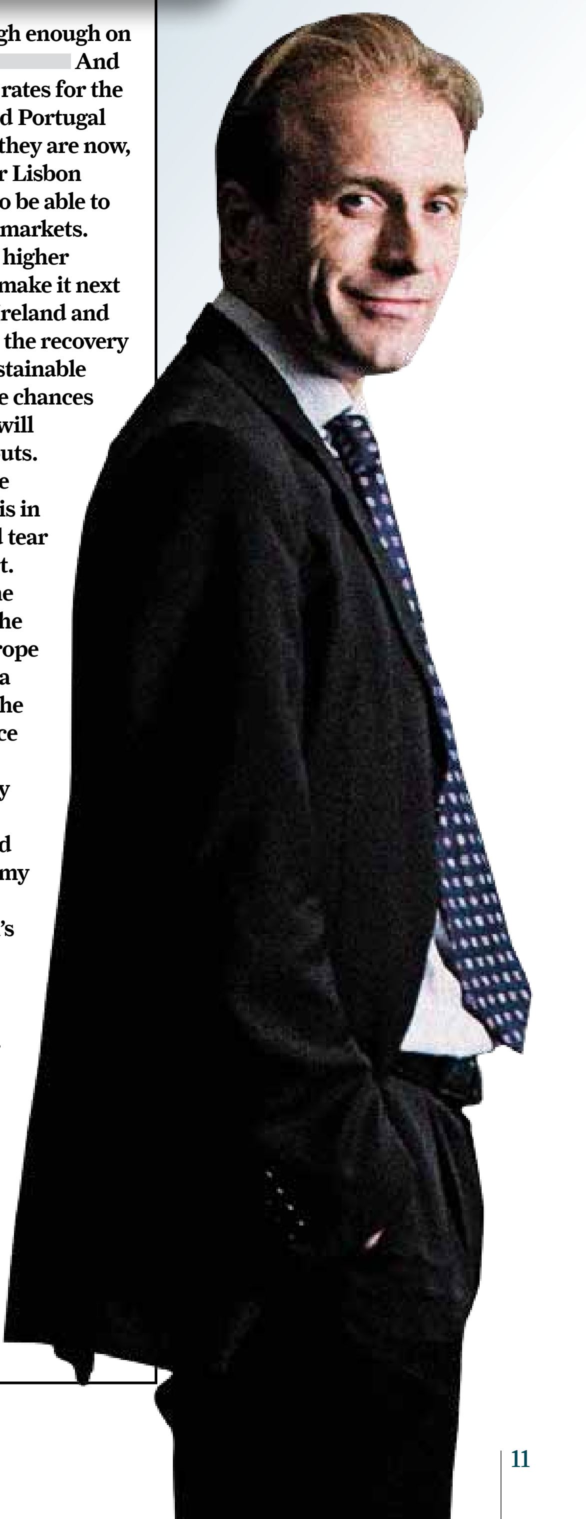
> *"Dividend momentum turned negative for the first time in two years in July"*

The latest bailout for Greece, which will require private investors to suffer losses if it goes ahead, falls well short of what is needed to provide Athens with sufficient relief. It is not tough enough on bondholders.

And as long as interest rates for the likes of Ireland and Portugal remain as high as they are now, neither Dublin nor Lisbon can really expect to be able to return to the debt markets.

Those higher interest rates will make it next to impossible for Ireland and Portugal to power the recovery they need for a sustainable fiscal position. The chances are that they, too, will need further bailouts. Finally, there is the risk of a fiscal crisis in Italy, which would tear the eurozone apart.

Yes, the UK is not part of the eurozone. But Europe matters hugely as a trading partner. The threat to confidence and growth – and therefore company profitability – of another downward lurch in the economy remains great at a time when the UK's own recovery is far from assured. Those dividends may look enticing. But be prepared for yields to rise further: they could start pricing-in a hit to earnings. ■



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

Illustration: Johanna Ward

Investing in the land

Shortages of supply and inexorable growth in demand are driving up world food prices and increasing price volatility. **Paul Melly** investigates a highly political issue and asks what factors investors should consider

BY 2050, THE world population is forecast to rise from almost seven billion to nine billion. To feed those extra mouths, global farm output will have to rise by 70%, Bruno Le Maire, France's Minister of Agriculture, warned in July. However, analysts agree that the supply of food is tightening as demand grows. The result is upward pressure on prices, which is driving huge investment in agri-industry and spurring trading on soft-commodity and related markets.

Supply and demand

Population growth is not the only factor behind rising demand. The increasing affluence of countries such as China, India and Brazil means that consumers there are buying more meat, which requires more intensive farming. Skye Macpherson is a Portfolio Manager at First State Investments in Australia, one of an increasing number of fund managers offering dedicated agri-business funds. She says: "This increase in demand for animal protein has an important multiplier effect on grain demand. For example, to produce 1kg of pork, you need 4kg of grain; the same amount of beef takes 7kg." The rise of biofuels, which is formally mandated in the US, is further increasing the pressure on arable land. The US Government requires that a certain proportion of US fuel demand is met by US-grown biofuel, to reduce the reliance on oil. This means that large tracts of land are being used to grow fuel crops such as corn, canola, palm oil and rape, rather than for food production. According to US agri-trade giant Cargill, government-mandated demand for biofuels

means that 4.95 billion bushels of US corn are expected to go to ethanol production in 2011. The effect on prices has been significant. Food prices showed sharp upward spikes in 2008, 2010 and, most strikingly, this year (see graph, 'Index of world food prices', overleaf). "The interim price softening of 2009 was a temporary phenomenon," notes Abdolreza Abbassian, Senior Grains Economist at the UN Food and Agriculture Organization. In March, Greg Page, Chief Executive Officer of Cargill, blamed government hoarding for the surge in food prices at the end of 2010. He criticised moves by Russia, among others, to ban grain exports as droughts and floods helped send stockpiles to their lowest levels in two generations. The increased cost of food has been a spark for civil unrest on a number of occasions in recent years, with riots and protests over high prices in countries as diverse as Haiti, Senegal, Cameroon and Bangladesh, and most recently in India, Algeria, Israel and China. Volatility is also increasing. Because output is concentrated in a few major producer countries (see graph, 'World grain production', overleaf), small disruptions in supply have a huge impact on global pricing. "There is no longer any slack in the system," says Abbassian. Today, you need a record crop every year, otherwise you must dip into reserves. This hits prices in the US – the largest market – and the rest of the world shakes." Over the past year, there have been several such disruptions in production, usually following adverse weather conditions, and high volatility in the wheat, corn, barley, cotton, soybean, sugar and cocoa markets. "Droughts in Russia and China, floods in Australia and Pakistan and heavy rainfall in Indonesia and Malaysia, along with other adverse weather conditions at harvest time in the US and Argentina, have all contributed to tightened supply," reports a Cargill spokesperson. On the demand side, the global recession had little impact on meat consumption in the developed world. Spending on food is the last expenditure to be cut in a recession, as the robust performance of supermarket chains testifies. China's imports of soybeans have also risen by more than 50% since 2008. Food producers and, by implication, investors in the market missed a trick here, failing to anticipate future growth in demand. "Research and development, and the drive to improve yields, was neglected for some years," says Abbassian. "There was a drop in yields and the rate of productivity growth." But there has been little incentive for investment. Research by Thomas Helbling and Shaun Roache of the International Monetary Fund shows that, in real terms, food prices had sunk to a historic low by 2000. Even after the hikes of the past three years, they remain at their lowest level since the Great Depression of the 1930s.

> ***"To produce 1kg of pork, you need 4kg of grain; the same amount of beef takes 7kg"***

The European dimension

For the rich economies of the European Union, rising food prices bring both good and bad news. They add to the cost of living and thus undermine consumer spending power at a time when the pace of recovery from the recession is feeble. Yet, in the longer term, they could help to ease the cost of the Common Agricultural Policy (CAP) by improving farmers' incomes. Established in 1957 to foster European food security by subsidising agricultural output, the CAP has not been yoked to the volume of output since 2005, when it was replaced by a single standard payment. The cost of the CAP has fallen from 48% of the EU budget in 1992 to a projected 32% in 2013. European Commission proposals for the EU's Multiannual Financial Framework 2014–20 envisage that the CAP will get €372bn and will no longer be the largest element in the EU budget. European farmers have higher costs than emerging market competitors, so increased food prices help them to achieve commercial viability. "Farming profitability is currently very strong from a historical perspective due to these higher crop prices," says James Govan, Investment Manager in the Barings Global Resources team. "In the medium to long term, we believe that the fundamentals of the listed sector in Europe are attractive," he adds. "Supply in the form of arable land and crop yields faces short-term constraints, while demand – the global population – continues to grow." But, given the history of losses in the European market, more efficient farming practices are a priority, notes David Baldock of the Institute for European Environmental Policy in an

The geopolitics of food production

Poor countries are especially vulnerable to global food price inflation. They lack the scope to expand food output rapidly in order to satisfy domestic demand when imports become unavoidable.

At the same time, foreign countries are buying up their food-producing land, which worries the UN Food and Agriculture Organization (FAO). Arab states such as Saudi Arabia, whose land mass largely comprises desert, have begun to invest on a large scale in agricultural land in sub-Saharan Africa to secure their sources of food for the long term. These moves have attracted criticism from the FAO, which highlights accusations that local farmers, whose traditional claim to the land may not have been formalised, are being elbowed aside to make way for the new projects.

Some low-income countries, on the other hand, have succeeded in securing supply through the development of a national strategy of reserves stocks and by using foreign aid to extend irrigation and provide more support to small farmers. Mali, which is on the fringes of the Sahara and is one of the world's poorest nations, has sustained steady growth in cereals output year by year and is now almost self-sufficient.

Illustration: Crush / agencyrush.com

World grain production		
(Million tonnes)	2009/10 season	2010/11 season (prelim)
World total	**2,234.0**	**2,188.4**
US	416.3	397.9
China	415.3	431.3
EU	295.9	277.2
India	203.7	215.7
Russia	94.2	58.6
Brazil	71.7	72.7
Source: US Department of Agriculture		

Index of world food prices $ – taking 2005 as 100										
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 Q2
80.5	83.3	88.6	100.9	100.0	110.5	127.3	157.0	134.0	149.4	186.4
Source: IMF										

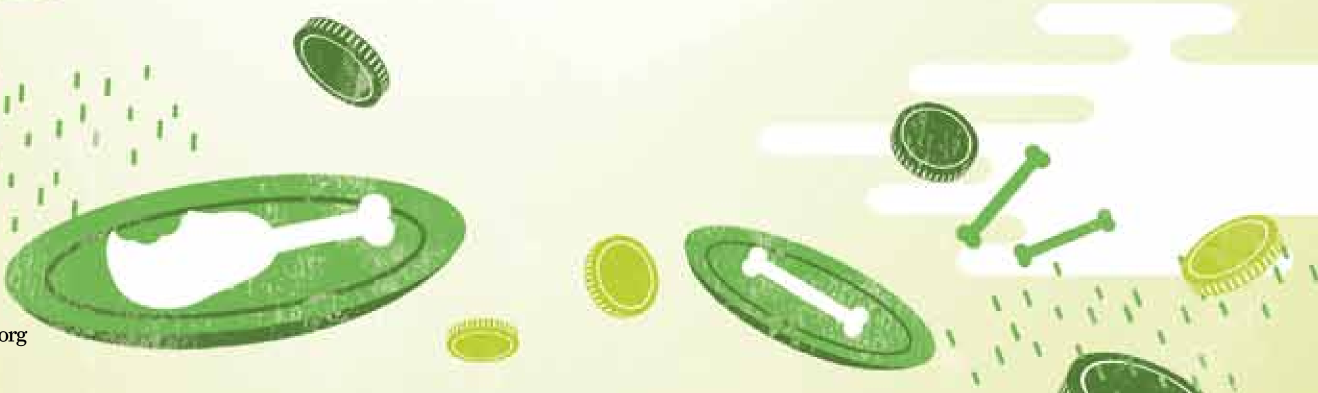
initial analysis of the European Commission's proposals: "Promoting resource efficiency has pride of place in the new objectives, along with smart, sustainable and inclusive growth."

The benefits of equity investing

Investor interest in Europe is part of a wider trend of money returning to the sector, chasing favourable returns. Returns from both soft- and hard-commodity equities have outperformed emerging-market equities over the past ten years by about 2% per annum, according to First State Investments. "Buying commodity equities provides diversification benefits to investors' existing emerging markets exposure," says Mark Lazberger, Chief Executive of First State Investments. "These are especially strong where companies supplying the raw materials to emerging economies are listed on western exchanges, and therefore in general have better corporate governance." In addition, investing in agricultural equities has advantages over investing in the hard-commodity markets because the sector's growth tends to be linked to a later phase of economic expansion. Hard commodities do well in the early stages of a country's development, while performance in the agri-food industry tends to follow population growth in cities and increasing affluence on the part of consumers. The risks are many: public concern over genetically modified crops, difficulties with water access and availability, land degradation, urban encroachment on rural lands, climate change, land-use rights, deforestation and maintaining biodiversity are all factors that other sectors do not necessarily face. But investors in developed agriculture markets are putting money behind a more broad-based and stable phase of economic development.

"There is no longer any slack in the system. Today, you need a record crop every year, otherwise you must dip into reserves"

The US is one area where this is especially visible. "Agriculture will very likely be a much more important part of the US economy," says Kristof Bulkai, Fund Manager in the water and agriculture team at Thames River Capital in London. "Prices are rising quickly, and this is shifting consumer and investor behaviour swiftly." But despite growing interest in Europe, equity investment opportunities are still highly concentrated. "In our opinion, there are not enough agriculture-related stocks available," says Bulkai. "This is pushing investors to agricultural commodity exchange-traded funds, which are acting as substitutes. Expect more farm-related listings from here and abroad." ■



Learning from PAST EXPERIENCE

The Chartered Institute for Securities & Investment is stepping up its educational initiatives to improve young people's chances of forging a career in finance and to widen access to the industry. **Sophia Morrell** reports

THESE ARE TOUGH times for students and school leavers in the UK. With university fees due to rise sharply from 2012, many young people are faced with difficult decisions about whether to continue with plans for higher education. At the same time, a strained economy has diminished job prospects for both graduates and school leavers, with competition becoming fiercer than ever. On top of this, financial services have seen a traditional avenue for entry for less well-connected young people – into back-office roles – restricted by the automation of many settlement functions.

As a result, it is the right time for the CISI to increasingly tackle these issues through its own Educational Trust.

Set up in 2008 to build on the Institute's existing educational activities, the Trust initially focused on a programme that awards scholarships to talented postgraduate students at CISI-accredited centres of excellence in the UK. Now, the CISI has broadened its educational remit and is making headway in the schools as well as the universities sector. The CISI Board has decided to underpin the work of the Educational Trust with the aid of surplus funds generated by the Institute.

The budget is about £70,000 for this year and that figure could more than double within three years. The long-term aim is to grow the funding of the Trust to £5m within a decade. CISI Managing Director Ruth Martin says: "At the moment, there is considerable change to the funding structure for university fees for students. As a result, we're faced with the reality that, while some students will continue to go on to university, others will look for jobs straight out of school. We're looking at what we can do in schools to make a difference for them. "It is a win–win for financial services and schools to work together." Last year, the Institute launched a new introductory qualification to schools, the Certificate for Introduction to Securities & Investment (Cert. ISI). The Certificate is for post-16 students and a first wave of candidates has just taken the qualification (see box opposite).

As well as providing a professional qualification, the Certificate has been assigned a UCAS tariff, so it will enhance a student's application to university. Students achieving the highest grade of a pass with distinction gain 60 points, equivalent to an A grade at AS-level.

"The future of the course lies in its ability to link the study of financial services to practical experience"

Opening doors

It is the first UCAS-accredited qualification aimed specifically at preparing students for a career in the securities and investment industry, which has helped ensure its appeal to state-maintained schools.

"We strongly believe as an Institute that there should be equality of access to a career in financial services," Martin says. "We are keen to get take-up of our qualifications from state-maintained schools.

"There is a challenge to penetrate this sector as, for example, pupils at state schools may not have anyone in their family or their network who works in the City," she adds. "We took a core benchmark qualification used by the industry and tried to make it more accessible to schools and more relevant to those who might be thinking of entering the industry."

As part of its efforts in the state sector, the CISI has just completed the first year of a pilot scheme sponsoring a teaching post at two comprehensive schools in

Beckenham, Kent.

Nick Seaward, Chartered FCSI, who worked at Dresdner Kleinwort for 15 years and is a former CISI Board member, has been teaching the Cert. ISI since retraining as a teacher. He says that the students' responses to the course have been positive.

"Many of them have found it relevant to their aspirations," says Seaward. He explains that they have been able to link the course to work experience, with two students working for two weeks at Handelsbanken in Croydon.

"I think the future of the course lies in its ability to link the study of financial services to practical experience," he says. Seaward adds that he is passionate about the opportunity to get young people from a much wider range of backgrounds into work experience in the City.

More schools and colleges from the state sector will start offering the course this month, and teaching materials that Seaward helped to devise have been converted into an online resource for the new teachers. There is an accompanying workbook.

Extra funding for the Educational Trust will be used for initiatives including the training of staff in the state sector to teach CISI qualifications and expanding the provision of prizes and scholarships to incorporate schools and colleges as well as universities.

However, it is not just schools where there are opportunities. In the next academic year, the Stephen Lawrence Centre in Deptford, London, will begin teaching the course.* Ruth Martin says that the centre is of particular interest because its location means that it reaches into some of the most disadvantaged communities in south-east London.

Outside London, the Trust plans to sponsor a teaching post in Leeds for two years and will look to expand to other regions beyond that in the future.

While the principal focus is on secondary-level qualifications, higher-education efforts are progressing as well: the CISI has several modules that are gradually being integrated into a degree.

Stephen Clark, who is Deputy Pro-Chancellor of Canterbury Christ Church University and sits on the strategic board at Henley Business School, was appointed as a Senior Adviser to the CISI this year. He has been helping the Institute to develop links with universities that could offer its qualifications. So far, Clark explains, a dialogue has been opened with 15 institutions out of 53 that could potentially include modules within their existing studies.

Mutually beneficial

There is a range of undergraduate and postgraduate qualifications that can be studied, such as specialised exams in Islamic finance and risk in financial services, an Investment Advice Diploma (IAD) and a Master's in Wealth Management. Students who sit the IAD will become Associate members of the CISI, which Clark estimates will put them at least 18 months ahead of the competition when they graduate and start their careers.

"We think that this is all coming together. The Government's White Paper on higher education emphasises the importance of clearly demonstrating vocational outcomes from a university education," says Clark. "The FSA is strengthening the need for individuals to be professionally qualified, especially when dealing with the retail sector. The IAD links a degree to a CISI qualification recognised by employers and regulators when preparing students for the marketplace, which is forever competitive."

Employers have welcomed the positive effects of vocational training. Redmayne-Bentley, an independent stockbroker in Yorkshire, has been accepting placement students from universities around the country for two decades. Keith Loudon, Chartered FCSI, Senior Partner at Redmayne-Bentley, says that two elements are useful: one is the theoretical material that students learn; the other is the experience of seeing it applied in a broking firm.

In addition, his colleagues teach revision lectures where appropriate at Leeds Metropolitan University, and over the past two years the firm has opened its computer systems to students for a virtual investment club.

Loudon is a firm believer that a close relationship between universities and employers is very positive. "I think it is beneficial on all sides – the students and graduates benefit, the university benefits and we certainly benefit as a firm," he concludes. ■

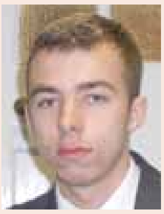
Is your firm interested in supporting the CISI's educational initiatives? Or would you like to see your child's school or college offer the Certificate for Introduction to Securities & Investment? If so, please contact the CISI Educational Development team at ***educationdevelopment@cisi.org***

To sponsor a pilot of the Cert.ISI at the Stephen Lawrence Centre, contact Eleanor Howard, Programme Manager, at* ***eleanor.howard@stephenlawrence.org.uk*

Cert.ISI: the verdict

Among school students to take the Certificate for Introduction to Securities & Investment were James Curran and Joe Hayes. Here James and Joe, who both have ambitions to work in financial services, give their verdicts on the course.

James Curran



Joe Hayes

James Curran, from Langley Park School for Boys, Beckenham, says: "The course was challenging: I had to learn 'the knowledge' – key facts and figures about financial services (unit 1) – and to complete a 3,000 to 4,000-word project (unit 2). The project title I chose was: 'Is there sufficient provision in the UK for consumers to complain and request compensation?', and my research involved meeting with several industry professionals. I was rewarded with a two-week work placement at Handelsbanken, Croydon, which was a brilliant experience and a great opportunity to apply what I'd learned."

James, who gained a distinction, adds: "I thoroughly enjoyed taking the qualification and now have a clearer insight into financial services – the field in which I intend to specialise. Not only have I gained the equivalent of an AS-level, it is also an industry-recognised qualification – something I believe helps me to stand out in such a competitive field."

"Challenging yet intriguing" is how Joe Hayes describes the qualification. A student at Chatham Grammar School for Boys in Chatham, Kent, he says: "I took the course after achieving an A in A-level economics and felt that I would find this subject relatively easy to grasp. However, I was quickly proven wrong.

"I want to work in financial services and I feel that this qualification gives me an advantage over other people hoping to enter the profession."

Joe, who passed with merit, says that an aspect of the course he found of particular interest was the study of bonds, equities and derivatives. "You also learn about the regulatory system and the many crimes that occur in finance – something I had not really heard of from my economics studies."

Joe Hayes is one of two Cert.ISI students from Chatham Grammar who recently experienced a week of work experience at the Chatham office of Lloyd's of London.

Mark Baker, Chartered MCSI, Senior Manager, Market Services at Lloyd's, says: "When we heard that Chatham Grammar was offering this qualification, we wanted to give our support. We are always keen to engage with the next generation of employees and view the Cert.ISI as a quality standard for new-starter recruitment across a number of business areas."

Lloyd's plans to build its relationship with the school next year through regular student visits to its office, holding question-and-answer sessions and offering further work-experience placements.

Without borders

Fresh from the launch of the European Securities and Markets Authority, its Executive Director Verena Ross speaks to **Hugo Cox**

LONDON'S FINANCIAL SERVICES industry breathed a collective sigh of relief in February. The appointment of Verena Ross as Executive Director of the European Securities and Markets Authority (ESMA) had been much hoped for. Chancellor George Osborne had lobbied hard for Ross's appointment, amid concern in the City that UK under-representation was resulting in an increasingly continental influence over London's trading activities. Europeans had been appointed to chair each of the three new European supervisory bodies. The installation of Dutch regulator Steven Maijoor at ESMA was especially surprising, as he was little known in the City. Ross, who took up her role in June, rejects the principle that European regulators represent their 'home' markets. "I'm a German who was working in the UK. It's important not to see these European institutions as constituted around national interests," she explains. "I applied to ESMA because I was interested in the work. It's about your intentions and what you want to achieve." A career regulator, Ross's pedigree for the pan-national position is strong. Her last job, running the International Division at the FSA, placed her front and centre of the UK's input into reforming regulatory oversight at a European and global level. Before that, she ran the Strategy & Risk Division, which shaped the FSA's strategic approach to regulation and risk management both domestically and internationally. "Her international experience stands her in good stead, as international convergence increasingly dominates the financial regulatory agenda," notes Peter Beales, Managing Director at the Association for Financial Markets in Europe.

> ***"It is really important that those in the industry understand why they are selling a product and what they are trying to achieve"***

ESMA was launched following a difficult process of seeking consent for its aims at the European Parliament. At the top of Ross's to-do list will be to implement Europe's two transformative pieces of financial regulation, due later in the year: the updated Markets in Financial Instruments Directive (Mifid 2) and the European Market Infrastructure Regulation. Ross is no stranger to the challenges of distilling regulatory strategy: from 1998 to 2000 she ran the office of Executive Chairman Sir Howard Davies during the creation of the FSA, a single regulator forged from 11 separate UK predecessors. "What I remember most is bringing the different cultures and

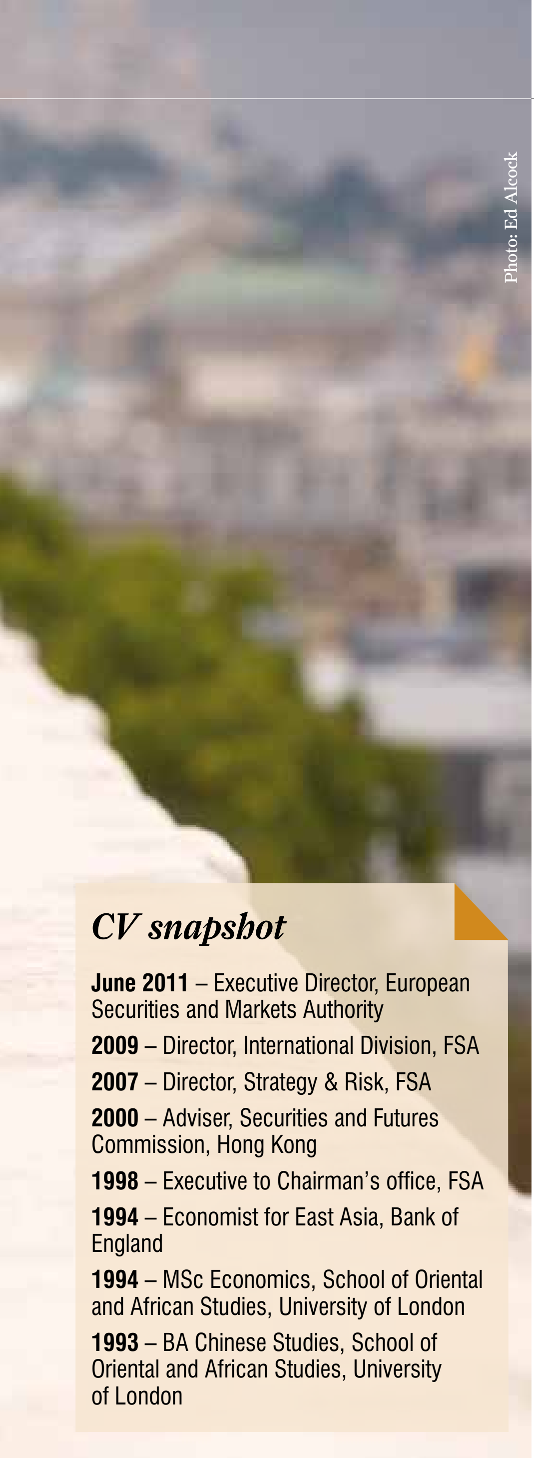


Photo: Ed Alcock

ESMA

The European Securities and Markets Authority (ESMA) replaces the Committee of European Securities Regulators. It aims to be a more interventionist securities markets regulator, alongside the other two European supervisory authorities: the European Insurance and Occupational Pensions Authority (whose Chief Executive Gabriel Bernardino was profiled in the *S&IR* in June) and the European Banking Authority. It is responsible for co-ordinating activities between national securities market regulators and determining rules for Europe's securities markets, as well as imposing restrictions on market participants.

Oversight at the European Parliament is provided by the Economic and Monetary Affairs Committee (ECON), chaired by Sharon Bowles. There has been no time to test this governance structure – Ross only took up her appointment on 1 June – but she stresses the "direct contact" between ESMA and ECON.

One element of ESMA that has attracted comment, given its power and scope, is its relatively low staffing level. Including seconded national experts, there are between 50 and 60 employees. This compares with the 4,000 currently employed by the FSA. Michel Barnier, Commissioner for Internal Market and Services, acknowledged in May that these resources made it "challenging" for ESMA to carry out its work. Numbers are due to grow to about 70 by the end of the year, Ross notes, then to 120 over the next two years. To deliver against the key priorities "will always be tight," she says, especially since the European Commission is currently considering giving ESMA responsibility for trade repositories under the new European Market Infrastructure Regulation, as well as jurisdiction over short-selling.

CV snapshot

June 2011 – Executive Director, European Securities and Markets Authority

2009 – Director, International Division, FSA

2007 – Director, Strategy & Risk, FSA

2000 – Adviser, Securities and Futures Commission, Hong Kong

1998 – Executive to Chairman's office, FSA

1994 – Economist for East Asia, Bank of England

1994 – MSc Economics, School of Oriental and African Studies, University of London

1993 – BA Chinese Studies, School of Oriental and African Studies, University of London

approaches together," she says. Ross rejects the suggestion that creating either the FSA or ESMA felt like herding cats. "At the birth of the FSA, everyone was there to achieve the same thing, and that's what it's like at ESMA – bringing 27 member states together to form a single policy about what European regulation should comprise."

Eastern promise

Given the global rebalancing that followed, Ross's choice of degree subject was prescient. Her grandmother was born in Shanghai, and she helped to cultivate Ross's interest in China as a child. This led Ross to study Chinese culture, language and history, first in Hamburg and then in London, with several months in Taiwan and China in between. "I was struck by China's determination and dynamism, within all segments of society and crossing all generations," she says. "I also became aware that people's actions can be motivated by very different cultural viewpoints. This made me acutely conscious that an appreciation of this is important if we are to communicate effectively with each other." In her first job she combined these interests with practical training, working at the Bank of England as an economist covering the East Asian economies.

While Ross underplays her FSA background in her current role, keen observers will note that, with regard to wholesale markets manufacturing retail products, her appointment has seen an alignment between the UK and European regulators.

Early in July, ESMA Chairman Steven Maijoor said that achieving better investor protection was about scrutiny "at the product design stage", as well as at the point of sale. Ross agrees: "There is an appreciation that just focusing on the point of sale might not be sufficient, so there has been a shift to include the design process."

Not all the industry thinks that the current consultation framework at ESMA is adequate. When the names of the 29 members of ESMA's key securities and markets stakeholder group were published in May, the global banks were alarmed to see only one of their number, J.P. Morgan, among the ten members representing 'financial markets participants'; the only other bank was the Greek institution EFG (banks are better represented on the working groups that consult with the standing committees).

Notwithstanding this apparent omission, Ross believes that some segments of the industry could get more involved in the work of the European regulator and the European Parliament. The banks are active in the public hearings and consultations, but other participants need to scrutinise proposals more fully early in the draft stage. "There is a need for the industry to engage earlier; often it doesn't realise until late in the day that a specific piece of legislation will have an impact on it," she says.

In terms of public awareness, Ross believes the crisis has been beneficial. "The growth in public interest in the sector following the crisis is important because regulation is ultimately about what society wants financial services to do. There is still much to do to educate individuals in how they can better use the buying power that they have, but in general people now know much more," she says.

Following her degree in Chinese culture, language and history, she studied economics as her Master's subject – partly because it allowed her to apply her Asia-Pacific interests in a practical setting, and partly because of the opportunities to work in broader fields than pure finance.

"I think that in this sector there is a real risk of people specialising too soon. I have met several people who have come to regulatory roles later in their careers in order to correct this and broaden their experience." Cultivating broad interests is also about personal development, she notes: "In order to both build a career and develop your personality, it is important to have breadth of experience and knowledge."

Beyond the scope of exposure and the range of people, Ross is also excited by the societal impact of her work: "You are working on issues that are important to the wider development of the economy and of society. The responsibilities are huge – to succeed, ESMA must be able to deliver a wider public good – but so are the rewards."

Those firms curious about what route ESMA will take to enforcement may find her next piece of advice revealing. "It is really important that those in the industry understand why they are selling a product and what they are trying to achieve. Just doing it for the bottom line is not a good enough explanation; you need to want to build a long-term, sustainable business." ■

End of *empire?*

European sovereign debt woes and the US credit rating downgrade are influencing fixed-income asset allocation strategies and investor appetite, reports **James Gavin**. What is left, or 'risk free'?

AFTER A TURBULENT summer that saw sovereign credit risks fan out from Greece through Italy and Spain, and even to France and the US, investors are being forced to reassess their risk appetite. At the same time, investment managers are re-evaluating asset allocation strategies to adapt to a more fragile global market. While concerns about sovereign default in the US may have been exaggerated, the wrangling over America's debt ceiling and the continuing European debt crisis have given the lie to the concept of 'risk-free' yield. Although most investors view the sovereign bonds of major developed countries as the safest assets in their portfolio, concerns about sovereign credit risk hit a new high on 5 August when ratings agency Standard & Poor's (S&P) downgraded the United States' AAA long-term credit rating. The S&P downgrade did not come as a shock. It represented the culmination of a budgetary deterioration that was the result of the baby-boomer generation promising itself retirement benefits that subsequent economic growth has been unable to deliver. But it carries symbolic resonance for investors across all asset classes.

The modern financial system is largely built upon the creditworthiness of the US Government, its ability to supply the world with a reserve currency and its capacity to act as a lender of last resort. That has been weakened.

"The fact that the US is no longer AAA shows that some people no longer view its balance sheet as pristine," says David Tan, Head of the Global Rates team at J.P. Morgan Asset Management. "That's not great for confidence, which is why we are seeing people move out of risk assets." Counterintuitively, the near-term impact of the rating downgrade has actually shifted more money into US Treasuries, as investors reduce exposure to risk assets – notably equities – and increase allocations to fixed income as the traditional safe-haven play.

The S&P downgrade failed to cause a big reaction in the yields of US Treasuries. In fact, by mid-August, the ten-year yield was almost 30 basis points lower than on the day of the announcement. (When demand for debt grows, the Government can afford to issue it at a lower rate.) Managers, meanwhile, report that the downgrade did little to affect their strategic allocations to Treasuries; it was widely anticipated and changed little of their structural appeal. US Treasuries still provide a hedge against riskier assets and will remain a key constituent of most fixed-income portfolios. "They have benefited because money has to go somewhere, and when you want to reduce exposure to risky assets, you have little choice but to move money into government bonds," says Tan. S&P kept its short-term outlook for US credit as stable, so it is unlikely that the huge money-market funds around the world – funds with short-term durations investing in highly liquid and reliable debt – will become forced sellers of US Treasuries.

In its response to the downgrade, investment manager BlackRock noted that the US Treasury sector remains the largest and most liquid fixed-income market in the world, with the greatest degree of price transparency and few genuine alternatives. It predicts that the vast majority of investors will continue to use the Treasury yield curve as an effective credit risk-free benchmark against which credit spread issues can be judged. Jim Leaviss, Head of Retail Fixed Interest at M&G, says, however, that there is now a much smaller pool of AAA-rated assets that investors can buy. Until the S&P downgrade, US Government debt formed around 55% of the world's AAA market.

That European problem

Credit problems, of course, are not confined to the US. Much of the developed world faces high levels of indebtedness and lacklustre economic growth, heightened market volatility and reduced liquidity. The evolving eurozone sovereign debt crisis is proving a serious drag on European growth. This is true among even its strongest economies, such as Germany, which reported just 0.1% GDP growth in the second quarter of this year.

"Sovereign credit risk been most prevalent in Europe's periphery, but the market is rife with speculation that countries such as France might also lose their AAA rating in the coming months," says Nick Stamenkovic, Fixed-Income Strategist at RIA Capital Markets.

Sovereign credit markets have

been unimpressed by European policymakers' attempts to use liquidity – notably, the mass purchase of eurozone government bonds by the European Central Bank – to address what is fundamentally a solvency problem. Carl Hess, Global Head of Investment at Towers Watson, notes that Europe's economy faces a bumpy path to recovery, including higher risk than average for all asset classes, with pressures from the debt overhang materialising in places that are hard to predict. Although US Treasury bonds will continue to be part of the DNA of many portfolios, asset allocation will inevitably shift in light of the sovereign debt crises that have proved stubbornly immune to government-level fixes. The greater impact is likely to be felt over time, with a gradual pick-up in the speed with which foreign investors diversify away from US dollar assets. But Hess argues that the absence of credible alternatives makes this a decade-long trend. Diversification will nonetheless remain the watchword in an environment where stress events are becoming more common. "Investors should continue to focus on whether they have appropriate diversification across the main risk factors that drive market returns," says Hess. In spite of the apparent resilience of Treasuries, some investment managers argue that the US may still be facing an 'end of empire' moment. "Despite its downward trend since early 2002, the US dollar has continued to be perceived as a 'safe-haven' currency," says Leaviss. "However, during the most recent bout of the peripheral eurozone crises, we saw the first signs that gold and the Swiss franc were seen as better 'safe havens' than the dollar. Many of the funds in our retail fixed-interest range have been investing in German bunds, as we expect them to benefit from investors looking to reduce risk." The Swiss franc hit two-year highs against the euro and the dollar early in August, causing great consternation for Swiss exporters and soul-searching at regulator the Swiss National. Tan says: "Switzerland appeals as a safe haven, as it is trying to do what the deutschmark used to do, but it's still a small market in global terms and there is no way that the Swiss franc can serve as a long-term alternative reserve currency." Despite the poor growth figures announced in the middle of the month, German Government bonds have also benefited from the flight to safety, but they lack the liquidity and depth of US Treasuries. What about further north? Norway benefits from extremely low absolute levels of debt, a strong institutional market and limited risks from external and financial shocks. It tops the list of the BlackRock Investment Institute's new ranking of sovereign debt issuers by the relative likelihood of default, devaluation or above-trend inflation. But, as BlackRock points out, a natural corollary to the country's low debt level is a relatively small number of bonds available for purchase in the debt markets. Turning to Asia, Japan's yen is still not much used as a currency in international trade. China's renminbi is not yet freely convertible and is considered to be decades away from being a viable alternative to the US dollar as a global reserve currency. Overall, no currency can yet make a strong case for replacing the greenback as the reserve of choice.

"The fact that the US is no longer AAA shows that some people no longer view its balance sheet as pristine"

Cautious approach

The longstanding sovereign ills in Europe and the US, managers claim, have been recalibrating their risk and trading models steadily, not suddenly. That, they note, is what they are paid for: more cautious positions have mitigated asset allocation risks. Wesley Sparks, Head of US Taxable Fixed Income at Schroder Investment Management, says: "High-quality mandates have restrictions on the average credit quality of the portfolio, and this doesn't require any coding changes because our portfolio management systems are already prepared to make calculations on a daily basis." In anticipation of a potential ratings downgrade, BlackRock had a taskforce from across the company review all aspects of its business that transact in US Treasuries and related securities, and developed a detailed plan to follow in the event of a downgrade. But because the underlying cause of the current sovereign bond crisis is structural rather than cyclical, current stresses in fixed-income markets may be here to stay. For fund managers, wealth managers and fixed-income strategists alike, the message is this: as long as sovereign risk is compromised at the highest levels, a stringent analysis of credit risk is critical. There has been no change of approach but a tighter adherence to existing procedures. "If there's one good thing to learn from all this," Tan concludes, "it is that we all need to do our homework and assess sovereign credit risk more carefully. We can no longer make the simple assumption that all sovereigns are broadly similar and that sovereigns generally don't carry any credit risk." ■

Triple-A survivors club

Countries, regions and dependencies that still hold an S&P AAA rating include:

Australia	**Germany**	**Netherlands**
Austria	**Guernsey**	**Norway**
Canada	**Hong Kong**	**Singapore**
Denmark	**Isle of Man**	**Sweden**
Finland	**Liechtenstein**	**Switzerland**
France	**Luxembourg**	**UK**

A rethink of the way financial institutions are audited would help to improve confidence in the sector, argues **Professor Michael Mainelli**, Chartered FCSI. Here, he advocates a new approach

Accounting for confidence

AFTER THE FINANCIAL crisis, we realised that the balance sheet and going-concern statements of many of our major financial institutions had been wrong. The 'credit scrunch' of 2007 was a systemic failure. Interactions between elements of the system (banks, rating agencies, regulators, governments, financial instruments, auditors and so on) mattered more than the specific behaviour of a particular element. If you believe that the crisis was an apocalypse or foreshadows such a meltdown, then you should be considering fundamental redesigns in numerous areas. How might we redesign auditing? Auditing and accounting have been subject to much criticism over the past two decades. Criticism perhaps reached a peak in the early 2000s after a series of telecommunications and internet failures, coupled with Enron's collapse. Another peak in the criticism followed the financial crisis of 2007–08. These criticisms are many and varied: audit firm market

> ***Rarely does criticism question the basis of audit and accounting in terms of measurement science***

concentration, lack of independence, principal-agent problems, lack of indemnity, relationships with regulators, mark-to-market rules. Rarely, if at all, does criticism seem to question the basis of audit and accounting in terms of measurement science. People who move from science to accounting are stunned to find that auditors do not practise measurement science. Scientific measurement specifies accuracy (how close a stated value is to the actual value) and precision (how likely repeated measurements will produce the same results). A measurement system can be accurate but not precise, precise but not accurate, neither, or both. If your bathroom scale contains a systematic error, then increasing sample size by weighing yourself more often increases precision but not accuracy. If your bathroom scale is very accurate but your past and future weights fluctuate wildly, today's spurious accuracy is not a good guide to your weight, for example for safety purposes.

Scientists view measurement as a process that produces a range. They express a measurement as X, with a surrounding interval. There is a big difference between point estimation and interval estimation. Auditors provide point estimates; scientists provide intervals.

For example, physical scientists report X ± Y. Social scientists report interval estimates for an election poll and state how confident they are that the actual value resides in the interval. Statistical terms, such as mean, mode, median, deviation or skew, describe a measurement distribution's 'look and feel'. The key point is that scientists try to express characteristics of a distribution, not a single point. Finance should be no different.

'Confidence accounting' means using distributions rather than discrete values in auditing and accounting. This is part of a shift to interval estimates and confidence levels that will make auditing and accounting resemble other measurement sciences more closely. The term was coined by proponents of 'Long Finance' (*longfinance.net*), an initiative to improve society's use and understanding of finance over the long term.

The shape of things

In a world of confidence accounting, the end results of audits would be presentations of distributions for major entries in the profit and loss, balance sheet and cashflow statements. The value of freehold land in a balance sheet might be stated as an interval – £150,000,000 ± 45,000,000, for example – perhaps recognising a wide range of interesting properties and the illiquidity of property holdings. Next to each value would be confirmation of the confidence level, for instance 95% confidence that another audit would have produced a value within that range. Finally, there would be a picture – a histogram of the distribution – so people can see the shape of things. The proposed benefits of confidence accounting include a fairer representation of financial results, reduced footnotes, measurable audit quality and a mitigation of mark-to-market perturbations.

To move discussion further along, it helps to show a worked example – a pro-forma set of accounts based on confidence accounting. In April 2011, the Association of Chartered Certified Accountants commissioned Z/Yen Group Limited, the commercial think-tank of which I am a director, to provide a short worked example of how a set of audited accounts prepared under confidence accounting might look, and to promote the paper via Long Finance for discussion. The Chartered Institute for Securities & Investment ran a seminar recently to discuss the draft example.

Quality control

The worked example takes the form of a presentation by the Finance Director of a hypothetical UK bank, loosely based on an actual major institution. The example concentrates on the key line items in the balance sheet and income statement and draws on disclosures in the annual reports over a five-year period. It attempts to illustrate the key assumptions that are required to produce a pro-forma set of accounts based on confidence accounting, including a graphical presentation of the results. A sample slide from the presentation, where the Finance Director works out whether or not the bank retains sufficient equity, is reproduced here.

The Finance Director points out that the mean value of equity at the balance-sheet date is £36bn, with a minimum of £6.5bn and a maximum of £65bn. There is 95% confidence that the value of equity is at least £24bn. The 95th percentile value supports a 'going-concern' assertion (assuming that £24bn is sufficient for regulatory requirements). If the state of the world does not change, the realised value of the balance sheet should be no more than £12bn (£36bn minus £24bn) worse than the mean. If the income over a subsequent period should fall £12bn short – and cannot be explained by either a change in the fundamental business climate, a substantial change in the business model and exposures or a very large intra-period event – then the quality of the balance sheet (and audit) must be called into question.

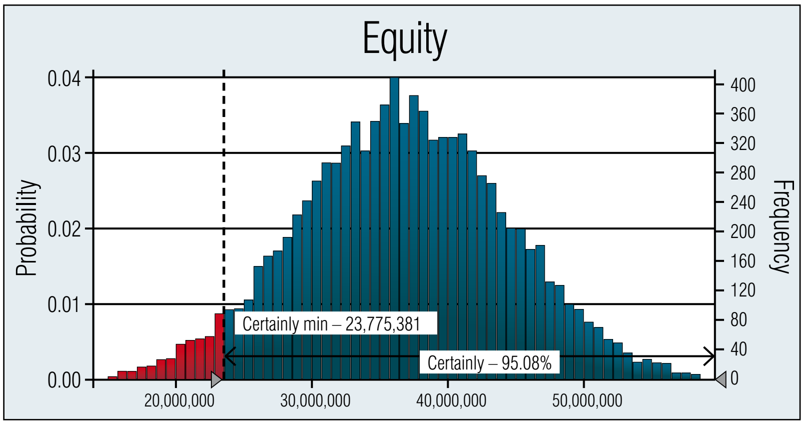
The worked example concludes that confidence accounting can be applied to banks and results in a fairer representation of financial results. Further, it provides a basis for beginning to reconcile balance-sheet valuation and market value. Certainly, it highlights the need for clarity between uncertainty over valuation during the period of going concern and risk about changes in the state of the economic climate. One big benefit of confidence accounting is that it reduces the size and complexity of annual reports – in the case of the Royal Bank of Scotland, for example, by between 30 and 60 pages.

Finally, under confidence accounting external assessors could evaluate auditors' performance. Any audit firm will have a number of client restatements or failures over, say, a decade. If failures are within confidence levels, then we have a good, or even too prudent, auditor. If not, perhaps a sloppy, or statistically unusual, auditor. Markets will price the value of higher confidence levels, and quality auditors will be able to value work on better disclosure appropriately. Redesigning the edifice of audit begins with rethinking. ■

Key forecasts

	Total assets (£bn)	Total liabilities (£bn)	Equity (£bn)
Mean	697	660	36
Minimum	666	633	6.5
Maximum	728	689	65
95th percentile	682	672	24

Source: Z/Yen Group Limited, 2011



Michael Mainelli
Chartered FCSI, is a director of Z/Yen, Emeritus Professor of Commerce at Gresham College in the City of London and a visiting professor at the London School of Economics and Political Science. His past experience includes aerospace and computing research

The tipping POINT

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

GEORGE IS AN experienced investment manager. For a number of years he has worked for Verdant, a well-known firm of wealth managers, developing a reputation as an astute stock picker. George also writes occasional articles on investment for an industry periodical as well as commenting in the broadcast media. In his own time he is a an active fundraiser for the Blue Moon charity, which supports disadvantaged children and of which his wife is a trustee. As a regular reader of the financial press, George is enthusiastic when his favourite newspaper launches a competition offering to make a substantial donation to a charity of the winner's choice. The contest runs for three months and requires entrants to construct a fantasy portfolio of 12 different shares, the winner being the owner of the portfolio showing the greatest increase in value over the term of the competition. He determines to enter, before he sees that the competition is not open to professional fund managers. George is disappointed that he appears to be ruled out from entry but, while talking about it with his wife, she suggests that she could ask her sister Mary to be the entrant and George could act as her adviser. Although perhaps stretching the rules a bit, they feel that, surely, no one could complain, because the only winner would be a charity. After some discussion Mary agrees, slightly reluctantly, that she will enter the competition. George constructs her portfolio, which contains a number of quite speculative investments where, if the companies' plans come off they stand to do extremely well, but the chance of them doing so is 50:50 at best.

A helping hand

Although Mary professes not to be interested in investment, when her portfolio gets off

to a slow start she tells George jokingly that he appears to have chosen a few donkeys rather than the thoroughbreds that she was expecting. But he tells her not to worry: it is their performance over the whole race that matters. Nevertheless, he too is disappointed at their lack of movement and determines to see whether he can give them a helping hand. George runs discretionary portfolios for a number of clients and had purchased for these some of the same stocks that he 'bought' for Mary. Accordingly, he begins to recommend small-cap stocks to clients with an appropriate risk appetite. He also takes the opportunity in his media comments to mention the stocks held in Mary's portfolio, without making specific

He is disappointed at the stocks' lack of movement and determines to see whether he can give them a helping hand

recommendations and making clear that he does not own any of those stocks himself. This raising of the stocks' profile has the desired effect and trading in them increases markedly, with a commensurate increase in price and the value of Mary's portfolio. The result is that at the end of the competition period Mary is declared the winner by a significant margin and the newspaper makes a donation of £25,000 to the Blue Moon charity. Both George and his wife are overjoyed to think of what the charity will be able to achieve with this additional money. An unintended consequence of George's action is that the value of his Verdant funds has increased significantly, leading to comment on his skill and a nomination for an industry award. However, as a result of this higher profile, a comparison is made in a financial periodical between the stocks in Mary's portfolio and those that George had mentioned publicly, leading to a not-so-subtle insinuation that there is a connection. In due course, George is summoned to see his Chief Executive, who says that because of the speculation he has to ask him whether there is any truth in the suggestion, particularly since he has had an 'informal' approach from a friend at the regulator. George responds by admitting that he designed Mary's portfolio, but adds that he is sure that numerous other participants had professional help. At the end of the day, he points out, the only beneficiary was a charity and no one has suffered. As regards tipping shares in which he had an interest, George says that not only did he not have a personal interest in any of the shares, but all of his recommendations were genuine and soundly based and he would stand behind them. Additionally, the newspaper seemed happy as it had increased its circulation, which was the object of the exercise. The paper had only paid out the prize money that it had budgeted to pay, and to a charity. So why should anyone complain?

Decision time

The Chief Executive listens to George and considers that he has four potential courses of action:

- take no action as this is not a regulatory matter
- ask George to resign
- sack George and report his action to the regulator
- report George to the regulator and await their response before doing anything. ■

What would you do?

Visit *cisi.org* and let us know. The results, together with the opinion of the Chartered Institute for Securities & Investment, will be published in the November/ December edition of the *S&IR* and will also be posted on the CISI website.

Need to read

The latest publications and study aids supporting CISI qualifications

TWO NEW WORKBOOK EDITIONS

Investment Advice Diploma (level 4)

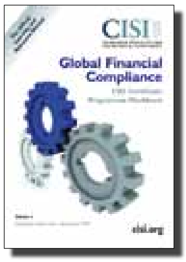
The Retail Distribution Review and the introduction of level 4 qualifications will affect the CISI exams available for both the wholesale and retail sectors. Due out in September are the following level 4 workbook editions, part of the Investment Advice Diploma programme:

- Securities (covering exams from 31 December 2011 to 30 December 2012)
- Derivatives (covering exams from 31 December 2011 to 30 December 2012).

Existing level 3 qualifications will remain alongside those at level 4 for the foreseeable future, particularly to support institutional clients while changes to the portfolio of retail qualifications take place.

Price: £75 each

NEW WORKBOOK



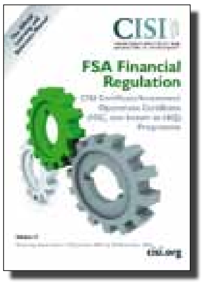
Global Financial Compliance

The objective of the Global Financial Compliance qualification is to ensure that candidates have an introduction to international compliance. The Global Financial Compliance workbook (covering exams from 1 December 2011) is due out in September and will cover:

- the international regulatory environment
- the compliance function
- managing the risk of financial crime ethics, integrity and fairness
- governance, risk management and compliance.

Price: £75

NEW WORKBOOK EDITION



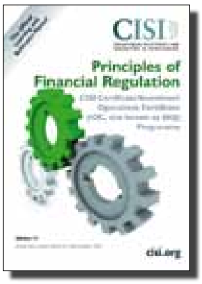
FSA Financial Regulation

The aim of this unit is to ensure that candidates have an understanding of the regulations and legislation that underpin the financial markets and the conduct of investment business. A new edition of the FSA Financial Regulation workbook (covering exams from 13 December 2011 to 30 November 2012) is due out in September. Topics covered will include:

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

Price: £75

NEW WORKBOOK EDITION



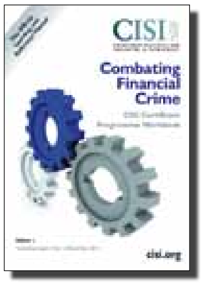
Principles of Financial Regulation

The Principles of Financial Regulation unit is part of both the Investment Operations Certificate, also known as the Investment Administration Qualification, and the Certificate programme. Its aim is to ensure that candidates have an understanding of the regulations and legislation that underpin the financial markets and the conduct of investment business more appropriate to the wholesale sector. A new edition of the Principles of Financial Regulation workbook (valid for exams from 21 November 2011) will cover:

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

Price: £75

NEW WORKBOOK



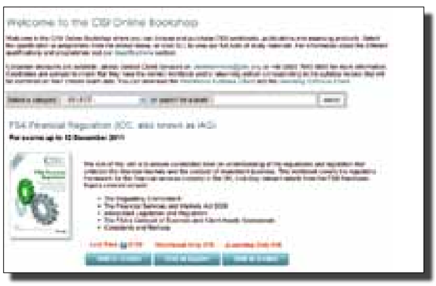
Combating Financial Crime

The objective of this qualification is to ensure that candidates have a basic knowledge of the regulations and practices related to combating financial crime. The Combating Financial Crime workbook (covering exams from 1 December 2011) is due out in September and will cover:

- the background and nature of financial crime
- predicate offences
- money laundering
- terrorist financing
- corruption
- bribery
- combating financial crime
- the role of the private sector.

Price: £75

ONLINE



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Go to cisi.org/bookshop

ONLINE TOOL

Professional Refresher

The CISI's Professional Refresher elearning tool enables you to remain up to date with regulatory issues and changes, maintain compliance and demonstrate continuing learning. The product now consists of more than 35 modules, including:

- anti-money laundering
- corporate actions
- investment principles and risk
- financial crime
- professional taxation
- training and competence
- the UK regulatory structure.

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

External specialists

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

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

The CISI would particularly welcome applications from specialists to help with developing the Global Securities Operations and Derivatives exams, as well as authors and reviewers for its elearning products.

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

Diary Events to attend over the coming months

Conferences

Tuesday 11 October Compliance Professionals Summit
America Square Conference Centre, London, EC3

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

CONFERENCE SPONSORSHIP
To consider taking up one of the sponsorship or exhibition opportunities at a conference, please contact Hannah Steele on *+44 20 7645 0648* or email *hannah.steele@cisi.org*

Professional courses

Venue: London unless otherwise stated

13 SEPTEMBER Operational Risk: Taking it to the Next Level £495.00

20 SEPTEMBER Securities* £495.00

27 SEPTEMBER Training Competence and Managing Expertise in a Regulated Environment £495.00

29 SEPTEMBER Pensions & Retirement Planning* (Birmingham) £495.00

5/6 OCTOBER Derivatives* £900.00

12 OCTOBER Pensions and Retirement Planning* (Edinburgh) £500.00

13/14 OCTOBER Understanding Regulation & Compliance £900.00

19 OCTOBER Investment Principles & Risk (PCIAM)* £300.00

19 OCTOBER Investment Principles & Risk (IAC)* £500.00

19/20 OCTOBER Investment Principles & Risk (LSE)* £900.00

27 OCTOBER Mastering Communications Skills in Financial Services £500.00

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

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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.

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Annual lecture

Thursday 22 September The City: Asset or Liability?
Plaisterers' Hall, 1 London Wall, London, EC2
A debate between Anthony Hilton, City commentator, *Evening Standard*, Chuka Umunna MP and Angela Knight CBE, FCSI(Hon), Chief Executive of the British Bankers' Association

London events

19 SEPTEMBER The Offsetting of Derivatives Contracts: Is Convergence on the Horizon?
CISI, 8 Eastcheap, EC3

20 SEPTEMBER India: Is the Growth Story Intact?
America Square Conference Centre, 1 America Square, 17 Crosswall, EC3

22 SEPTEMBER Prepare for Tomorrow's Volley of Commodity Spikes and Punch-Throughs
The Honourable Artillery Company, City Road, EC1

26 SEPTEMBER The Value of Trust: The Quest by Wealth Managers for 'Trusted Adviser' Status
Standard & Poor's, 20 Canada Square, E14

28 SEPTEMBER Health and Safety Law in the City
Reynolds Porter Chamberlain, Tower Bridge House, St Katherine's Way, E1

29 SEPTEMBER RDR Open Day
America Square Conference Centre, 1 America Square, 17 Crosswall, EC3

7 OCTOBER New Dawn Fades: European Banking – an Industry in Search of Stability
Standard & Poor's, 20 Canada Square, E14

12 OCTOBER LEI Detectors – The Identification of Legal Entities
SWIFT, The Corn Exchange, 55 Mark Lane, EC3

17 OCTOBER Impact Investments: An Emerging Asset Class?
America Square Conference Centre, 1 America Square, 17 Crosswall, EC3

20 OCTOBER Personal Taxation (1)
7city Learning, 4 Chiswell Street, EC1

25 OCTOBER Founders' Series: Terry Smith, Chief Executive, Fundsmith
Willis Ltd, 51 Lime Street, EC3

26 OCTOBER Investment Trusts and the Pursuit of Global Income – Future Prospects
America Square Conference Centre, 1 America Square, 17 Crosswall, EC3

27 OCTOBER What Makes a Good Regulator?
Gresham College, Barnard's Inn Hall, Holborn, EC1

1 NOVEMBER An Update on the Latest Moves Towards Interoperability
America Square Conference Centre, 1 America Square, 17 Crosswall, EC3

4 NOVEMBER Long Finance Autumn Event 2011: Bubble Trouble – Pop Goes Sustainability
HSBC, 8 Canada Square, Canary Wharf, E14

7 NOVEMBER Dutch Courage: Does Britain have Anything to Learn from the Provision of Pensions in the Netherlands?
CISI, 8 Eastcheap, EC3

8 NOVEMBER Personal Taxation (2)
7city Learning, 4 Chiswell Street, EC1

14 NOVEMBER Sir Thomas Gresham Docklands Lecture: Andy Haldane, Bank of England
Four Seasons Hotel, 46 Westferry Circus, Canary Wharf, E14

To book:
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Regional events

15 SEPTEMBER RDR Seminar
Guernsey
The Old Government House Hotel, St Ann's Place, St Peter Port, Guernsey

15 SEPTEMBER Quiz Night
Manchester & District
Ape & Apple pub, 28 John Dalton Street, Manchester

16 SEPTEMBER Golf Day
Birmingham & West Midlands
Kings Norton Golf Club, Brockhill Lane, Weatheroak, Alvechurch, Birmingham

21 SEPTEMBER Structured Products
Birmingham & West Midlands
Brewin Dolphin, 9 Colmore Row, Birmingham

28 SEPTEMBER Investment Briefing
Guernsey
The Old Government House Hotel, St Ann's Place, St Peter Port, Guernsey

28 SEPTEMBER Implementing Adequate Procedures for the Bribery Act – a Practitioner's View
Scotland
TBC – Glasgow

28 SEPTEMBER Implementing Adequate Procedures for the Bribery Act – a Practitioner's View
Scotland
TBC – Edinburgh

6 OCTOBER Breakfast Briefing
Scotland
The Royal Scots Club, Abercromby Place, Edinburgh

6 OCTOBER Annual Dinner
Manchester & District
Radisson Edwardian Manchester, Free Trade Hall, Peter Street, Manchester

12 OCTOBER RDR Seminar
Jersey
Radisson Blu Waterfront Hotel, Rue de L'Etau, St Helier, Jersey

14 OCTOBER Annual Dinner
Isle of Man
Mount Murray Hotel & Country Club, Mount Murray Road, Santon

20 OCTOBER The Bond Market in the Current Environment
Birmingham & West Midlands
TBC

1 NOVEMBER Integrity at Work
Yorkshire
Sheffield Hallam University

8 NOVEMBER Risk
Republic of Ireland
Institute of Bankers in Ireland, 1 North Wall Quay, Dublin

17 NOVEMBER Annual Dinner
West Country
Exeter Golf and Country Club, Countess Wear, Exeter

18 NOVEMBER Annual Dinner
South Coast
Hallmark Hotel, Durley Chine Road, Bournemouth
(Guest speaker: Michael Portillo, broadcaster and former MP)

To book:
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Professional interest forums

Forthcoming meetings

The CISI's professional interest forum (PIF) programme is a free CPD benefit open to all CISI Fellows, Members, Associates and Affiliates. Students may attend one event of each forum annually.

There are seven PIFs, covering the areas of compliance, corporate finance, Islamic finance, IT, operations, risk and wealth management. Each one meets at least quarterly in London over lunch to listen to presentations from practitioners, discuss topical issues and network with colleagues in a confidential setting. Attendance counts towards 'active' hours on the Institute's CPD scheme.


A professional interest forum

To join the 1,370 members already signed up to the forum mailing lists, email *pifs@cisi.org* stating which forum(s) you are interested in.

Forthcoming meetings include:

Corporate Finance Forum
Date: 6 September
Time: 12.30pm – 2pm
Topic: Private equity
Venue: Wragge & Co, 3 Waterhouse Square, 142 Holborn, EC1

Date: 11 October
Time: 12.30pm – 2pm
Topic: Cleantech
Venue: Wragge & Co, 3 Waterhouse Square, 142 Holborn, EC1

Date: 6 December
Time: 12.30pm – 2pm
Topic: Sovereign defaults
Venue: Wragge & Co, 3 Waterhouse Square, 142 Holborn, EC1

Risk Forum
Date: 15 September
Time: 12.30pm – 2pm
Topic: Risk appetite
Venue: Schroders, 31 Gresham Street, EC2

Date: 17 November
Time: 12.30pm – 2pm
Topic: Risk management information data
Venue: AXA Investment Managers, 7 Newgate Street, EC1

Compliance Forum
Date: 21 September
Time: 12pm – 2pm
Topic: Changes to the UK/ EU regulatory structure
Venue: Hogan Lovells, 50 Holborn Viaduct, EC1

Date: 16 November
Time: 12pm – 2pm
Topic: Mifid 2
Venue: Hogan Lovells, 50 Holborn Viaduct, EC1

Wealth Management Forum
Date: 27 September
Time: 12.15pm – 2pm
Topic: The price of achieving trusted status
Venue: Travers Smith, 10 Snow Hill, EC1

Date: 29 November
Time: 12.30pm – 2pm
Topic: Frontier markets
Venue: Travers Smith, 10 Snow Hill, EC1

Operations Forum
Date: 5 October
Time: 12.30pm – 2pm
Topic: Outsourcing
Venue: Standard & Poor's, 20 Canada Square, Canary Wharf, E14

Date: 24 November
Time: 12pm – 2pm
Topic: Operational risk
Venue: BT Centre, 81 Newgate Street, EC1

Date: 1 December
Time: 12.30pm – 2pm
Topic: Foreign Account Tax Compliance Act
Venue: Euroclear, 33 Cannon Street, EC4

Islamic Finance Forum
Date: 18 October
Time: 12.30pm – 2pm
Topic: Islamic funds – how do they compare?
Venue: CISI, 8 Eastcheap, EC3

IT Forum
Date: 27 October
Time: 12.30pm – 2pm
Topic: Disruptive technologies
Venue: Goldman Sachs, River Court, 120 Fleet Street, EC4

*For more information and to book, visit **cisi.org/pifs** or email **pifs@cisi.org***

Membership admissions and upgrades

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Nicholas Palmer
Aberdeen
Jeffrey Orenstein
Abu Dhabi Commercial Bank
Abdul Rathore
AEP
Mohamed Azmaniz Kairuman
Alliance Consultancy & Training
Lorraine Tromans
Amlin
Mark Rowe
Bank of America Merrill Lynch
James Kirkham
Barclays
Michael Forrest
Ian Penrose
BEL
Roger Lewis
Bloomberg
Tsvetelina Markova
BNP Paribas
Alan Anderson
Jennifer Kulesza
Michael William Lowe
Boston
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British Airways
David James
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Tracey Gray
Capita Group
Marilyn Bassett
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Johnathan Naylor
Charles Stanley
Katie Presland
Cirencester Friendly Society
Paul Hudson
Citigroup
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Clariden Leu
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Matthew Dickens
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Ross Garrard
Coutts
Francesca Cherubini Stoughton
Dennis Howard
Colin Mackenzie
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John Sergeant
Deutsche Bank
Blair Winton
Edwards Securities
Margaret Brett
Ernst & Young
Prakash Arikrishnan
Claire Paterson
European Wealth Management
Christopher Collins
Fidelity
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GHC
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MetLife
Jake Moeller
Moore Stephens
Mark Harding
Kieran Power
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Patrick Trueman
OCRA
Edward Leigh
Plurimi
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David Willis
Royal Liver Group
Ian Coulman
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Jon Tucker
VIDM
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Wealth At Work
Joseph Silcock
Westdeutsche ImmobilienBank
Jeffrey Cheah
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Robert Simpson
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Joanne Hull
Zenith
Joshua Bayode
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Dennis Hewitt
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Wing Kei Keith Koo
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Tatiana Bullock
Others
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Andy Amartefio
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Reinhard Nigl
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Chartered MCSI
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Steve Wallace
Close
Jon Wingent
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HSBC
Christopher Johnson
Northern Bank
James Norman
SG Hambros
Stephen Solomon
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Amandeep Shoker

This list includes membership admissions and upgrades from May 2011

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

George Dosoo demonstrating the skills that have made him a Master in taekwan-do

Mind over matter

Accountant George Dosoo MCSI is a martial arts expert of international renown. **Lora Benson** reports

George Dosoo MCSI

ACHIEVING A BLACK belt in taekwon-do, the Korean martial art, is a considerable feat in itself, but George Dosoo has far outstripped that level.

George, who has run his own accountancy practice in Edinburgh since 1992, is recognised as a Master in the discipline, qualifying for the honour only after becoming a seventh-degree black belt. He has since progressed to eighth-degree level.

He says: "Attaining the level of Master is a rigid process that takes about 20 years of training, so it is a status you have to work really hard for. I'm one of only a handful of taekwon-do Masters living in Scotland."

George has made a major contribution to the martial art as both a teacher and competitor over 30 years. Such is the esteem in which he is held, that he has been elected Chairman of the International Taekwon-Do Federation Scotland, a governing and awarding body.

After moving to the Scottish capital from his native Ghana, George took up taekwon-do at a local club in 1978. He proved to be a natural at the martial art, which involves a combination of blocks, kicks, punches and open-handed strikes.

Within two years he became a black belt and in 1982 he launched a teaching career that has seen him pass on his skills to hundreds of students of all abilities.

"The appeal to me of taekwon-do is that it is intellectually challenging as well as physically demanding," says George.

"Its movements are based on principles of physics, particularly Newton's Law, which explains how it is possible to generate maximum force by increasing speed and mass during the execution of technique."

The level of power generated is underlined by challenges that taekwon-do students perform as part of belt grading and competition. These include smashing bricks and tiles with their hands and wooden boards with their feet.

George can break 12 tiles with one punch and five boards with a single kick.

He says: "The practice of taekwon-do is a gradual and continual process. One starts as a novice with little co-ordination, strength, fitness or suppleness and then slowly – over a period of time and with perseverance – all of the elements gradually fall into place and develop.

> *"Taekwon-do is intellectually challenging as well as physically demanding"*

"It benefits you in mind as well as body, helping to improve focus, concentration, self-control and self-confidence."

His teaching skills have been in demand from governing bodies in countries throughout Europe and he has attended seminars in the US and Canada.

George enjoyed considerable success competing in taekwon-do in the 1980s, representing Scotland at international level. He won a silver medal at the European Games and a gold at the British Championships.

He says: "While winning medals was a great source of achievement, my preference has been to concentrate on the art of taekwon-do – the practice of self-defence – rather than the sporting aspect, in which you score points against an opponent."

Indeed, the traditional taekwon-do in which he specialises differs from the variety of the martial art that will be on show at next year's Olympic Games in London. "The Olympic event is more akin to karate, which involves different types of movements," he says.

Over the years, George has taught students from all walks of life; from teachers, doctors and lawyers to police officers and military personnel.

He says: "I have found that people who are academically inclined appreciate the art for what it is, rather than just seeing it as an exercise or a sport."

Taekwon-do is not just a male preserve and George has many female trainees at his school. "As taekwon-do is mostly a kicking-based art, it is one where, pound for pound, female practitioners can produce the same power as men."

As for the future, George will continue to devote his efforts to teaching.

"I was fortunate in my early years practising taekwon-do to be taught in the UK, US and Canada by General Choi Hong Hi, who founded the martial art in Korea in the 1950s. I want to pass on the knowledge I have gained." ■

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


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