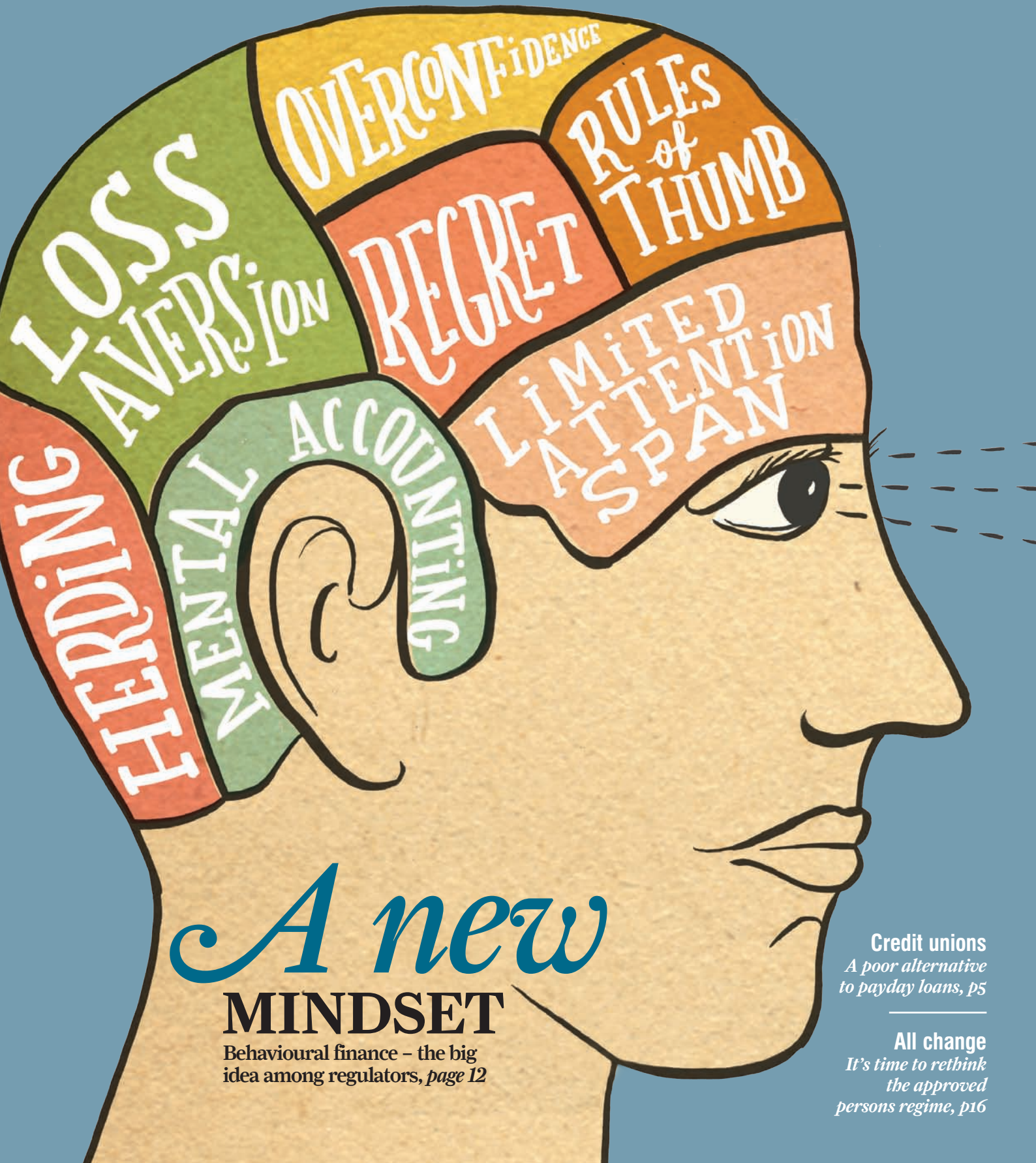


REVIEW



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

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A new **MINDSET**

Behavioural finance – the big idea among regulators, *page 12*

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A poor alternative to payday loans, p5

All change
It's time to rethink the approved persons regime, p16



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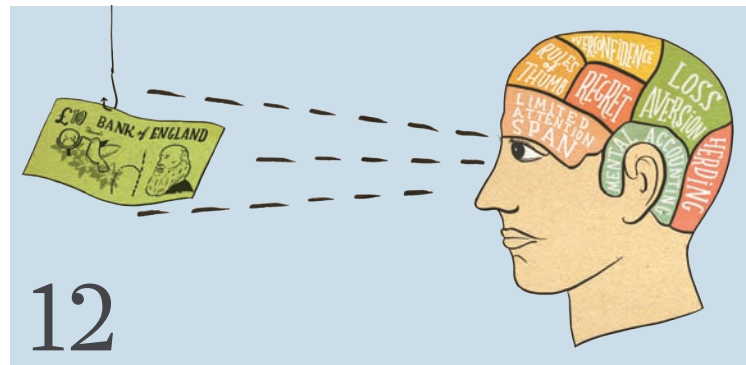
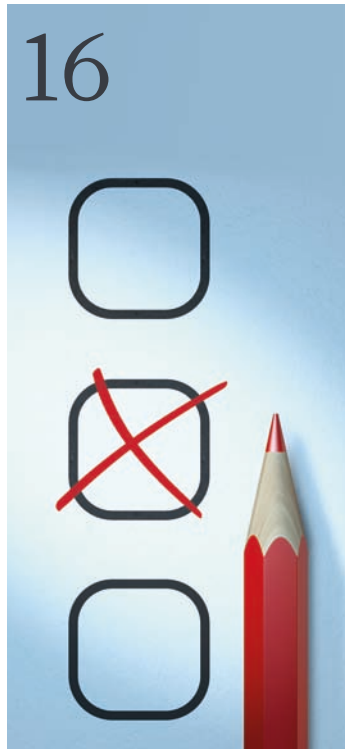
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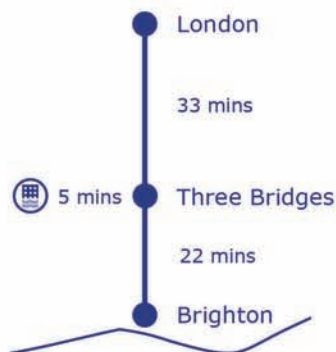
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CISI OPINION

The Archbishop of Canterbury wants to fight payday loans with the help of credit unions. The reality, however, is that the two lenders appeal to quite different markets

Too many debits for credit unions

ARCHBISHOP WELBY, fresh from flaying the banks during his participation on the Parliamentary Commission on Banking Standards, has announced that he is going to expand and promote credit unions, which he sees as the solution to providing personal microfinance to those who need it most. His backing for credit unions has been portrayed as a Holy War that will take on, and compete out of business, the payday lenders, which the Archbishop bitterly criticises for their usurious interest rates.

This makes for great headlines. However, while credit unions have a part to play in helping people manage their long-term finances, they are not in the same space as either banks or payday lenders.

Credit unions have several structural disadvantages. Most notable among these is the requirement that individuals can join only if they have a common bond, such as living in a defined area, working for the same employer or belonging to a particular church or trade union. The logic is that, as the funds are recycled between a small group who know each other, individuals make more effort to repay. However, there are only around 400 credit unions in the UK, covering less than 2% of the population.

Furthermore, credit unions are far from easy to set up and operate. The Financial Conduct Authority rules that govern them are only slightly less onerous than those for running a bank. To be allowed to operate, credit unions need to establish a myriad of risk, internal audit and compliance committees, adhere to a comprehensive rule book and have strict limits for lending and borrowing.

Before an individual can borrow from a credit union, he or she needs to become a member, which often involves paying a modest fee.

It is rare for credit unions to allow new

members to borrow immediately and, if they do, the interest rate is charged at the same rate as banks charge for unauthorised borrowing. Most insist that the member saves regularly, often for a minimum of eight weeks. Some, like the Birmingham Area Union, require three months of saving first. Even when they can borrow, the member is often restricted to a multiple of what they have already saved. For example, the Blantyre & South Lanarkshire Credit Union will lend only twice what has been saved.

The process of borrowing is the antithesis of payday lenders. Nearly all credit unions require the completion of an in-depth application form, which goes to a lending committee. Payday

Credit unions are not in the same space as either banks or payday lenders

lenders accept applications online and give an answer in 30 minutes.

There's a further catch. When borrowing, usually, a member of a credit union cannot withdraw all the money they have saved to put towards the loan. The amount of their savings must remain above a certain threshold. Therefore, the individual has to, in effect, borrow their own money, which significantly increases the effective rate and duration of the loan. For example, if an individual has saved £200 but needs £500, rather than borrow just the £300, they have to borrow all £500. If that individual repays at £20 a month, a loan that takes 29 months will incur £78 in interest. However, if he is able to use his savings and

therefore borrow only £300, still repaying at £20 a month, the total interest bill is only £29 and it can be paid off a year earlier.

Furthermore, credit unions do not pay interest on the money saved. At the end of the year, if the organisation is solvent, a dividend is declared that is distributed on a pro-rata basis among savers. This can be zero. Solvency is a real problem – last year six credit unions went bust. So far in 2013, that number is five and the expectation is for more to come.

Credit unions are not straightforward and have their own idiosyncrasies. They are not a substitute for payday lenders, whose immediacy and transparency are their two advantages. However, the Archbishop should remember that it's not just the interest rates that are important; it's the total cost of borrowing. The most expensive place to borrow short-term, low-value money is the banks, whose interest rates are considered 'reasonable' but whose additional fees, especially for unauthorised borrowing – which is the real competition to payday lending – make their APR more expensive than that of most payday lenders.

No wonder the banks are keeping quiet while the Archbishop takes on the payday lenders. The last thing the banks want is for the spotlight to be turned on their true APR lending rates. ■



COMPLIANCE AND RISK

CISI announces two new awards

Two new awards have been launched by CISI professional forums to celebrate the achievements of industry practitioners.

The awards are for:

- Outstanding Compliance Professional 2013
- Outstanding Risk Professional 2013.


All Institute members are being invited to nominate candidates for recognition. Nominees must be full CISI members.

The winners will be selected by the relevant forum committee based on their thought leadership and contribution to the industry.

Nominations should be made using an electronic form on the CISI website by 5pm on 20 September 2013. The awards will be presented at the CISI London Annual Dinner on 28 November.

Julian Sampson, Chartered FCSI, Chairman of the Compliance Professional Forum, said: "The introduction of the CISI Outstanding Compliance Professional award marks a new benchmark for the CISI in general and the Compliance Professional Forum in particular. I am looking forward to reading the nominations for candidates in all fields of financial services compliance, at whatever career level they might be."

Dennis Cox FCSI, Chairman of the Risk Professional Forum, commented: "Being a successful risk manager requires skill, tact and knowledge. In recognising the contribution that our members make through these new awards, the CISI is seeking to identify those risk managers that really add value."

 Nomination forms and full guidelines for the awards can be found at cisi.org/annualdinner13



Julian Sampson, Chartered FCSI



Dennis Cox FCSI

PUBLICATIONS

Regulatory update



In business, knowledge is power, and the CISI publication, *Change - the regulatory update*, is a good example. You and your firm are exposed to a range of unforeseen problems if you do not know what regulators want from you. How would you deal with an unexpected theme visit or an awkward questionnaire? Should you make that phone call to the regulator about that insignificant (or possibly significant) matter? Is your senior management team prepared for the rapid change in the regulator's priorities, such as their enquiries into the firm's business model?

All these are equally good reasons to look through a comprehensive description of the larger trends and smaller practical details in regulation that you can find in the September edition of *Change*.

The edition covers not only the big changes from EU rules but also the developing supervision policies towards wholesale and asset management. These are outlined in summaries of the changes and the sources will point you towards more information.

 View the edition at cisi.org/change



60-second interview

Professor Moorad Choudhry FCSI




Cutting-edge research into financial services will be delivered in a new quarterly academic journal that will be published in the *S&I/R*. Professor Moorad Choudhry FCSI has been appointed as Editor of the journal, entitled *InCISive*, and previews the publication, which will be launched shortly.

Q Why is the CISI launching InCISive? This journal will be an important new tool to help members maintain their competence. It will support the CISI's charitable objectives, which include the advancement of knowledge in the field of securities and investments, and to act as an authoritative body for consultation and research related to the industry.

Q What can members expect from the journal? Each 12-page edition will include original blind-peer-reviewed papers covering technical aspects of capital markets, wealth management and banking. We expect contributors to come from both the academic and practitioner sectors. The journal's editorial slant will be towards papers of practical value to financial institutions, with conclusions that should include recommendations that can hopefully assist firms working towards business best practices.

Q Can members contribute? Of course. The launch provides an opportunity for members to put forward their own research papers, of between 1,500 and 3,000 words in length, for consideration for publication to a worldwide audience.

Q What has inspired you to become involved? My links with the CISI go back to when it was set up. I was one of the original student members and took its Diploma exams in 1992-93. For some years, I've been a member of the CISI Editorial Panel, which chooses articles for the *S&I/R*, and this development naturally excites me. I think it's important that the world of finance academia and the City have more crossover and interaction, and a practitioner-organisation academic journal is a great way to strengthen such links. I'm looking forward to working with the journal's editorial board, which will be a mix of practitioners and academics, who will select and commission content, in addition to reviewing papers.

 For further information about the academic journal, including guidelines for submitting papers and a brief biography of Professor Choudhry, see cisi.org/academic



EDUCATION

Students win recognition

The CISI has announced the winners of its Educational Trust Awards 2013. The awards are open to students studying finance MAs at universities which are accredited by the CISI as Centres of Excellence.

To qualify for an initial £2,500 award, candidates had to be nominated by their own university.

The qualifying group was invited to attend the CISI offices to complete a general knowledge test and undergo a 30-minute panel interview.

This year, candidates were each asked to speak for five minutes on the debate topic 'Large multinational corporations paying minimal income tax is unethical', following which they discussed their views with the panel for a further ten minutes.

The interview process allowed the final candidates to double their initial award to £5,000, a feat achieved by Mariyan Dimitrov of Cass Business School, London.

Mariyan said: "I am extremely grateful to the CISI Educational Trust for honouring me with



Mariyan Dimitrov from Cass Business School receives his award from CISI Educational Trust Chairman Clare Gore Langton, Chartered FCSI(Hon)

this award. This achievement recognises my efforts during my academic studies at Cass Business School and sets an example to others that with determination and hard work one can accomplish great things."

The other candidates who attended the interview selection at the CISI office in London were: Ryan Lightfoot, University of the West of England; Priyesh Prasad, Glasgow Caledonian University; Wenzhi Zhu, University of Birmingham; Binjain Zhang, ICMA Centre in Reading.

An additional five candidates, who were unable to attend the final selection interview process, received awards.

CISI Educational Trust Chairman Clare Gore Langton, Chartered FCSI(Hon) said: "We congratulate all of the successful candidates who have won the 2013 Educational Trust Awards. The panel was most impressed with Mariyan Dimitrov, who demonstrated a clear understanding of the issues surrounding the taxing of multinationals' profits and articulated his arguments succinctly. We wish him, and all our scholarship winners, every success for their future careers."

For further information about the CISI Educational Trust, see cisi.org/cisiedtrust

EVENTS

Notice of Annual General Meeting

The Annual General Meeting of the Institute will be held at the CISI, 8 Eastcheap, London EC3M 1AE on **Wednesday 25 September 2013 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 your proxy
- using Form B to appoint a proxy, who need not be a member, to attend the meeting and vote on your behalf
- attending the AGM and voting yourself.

Voting forms, whether completed online or sent by post, must be received by the Company Secretary no later than 11am on **Monday 23 September 2013.**

BRANCH DINNERS

Guest speakers

What do explorer Sir Ranulph Fiennes, broadcaster Eve Pollard, entertainer Nicholas Parsons and ex-boxer Frank Bruno have in common? The answer is that they are all guest speakers at forthcoming CISI branch dinners.

Sir Ranulph Fiennes, who has led 22 expeditions to remote parts of the world, will provide an insight into his adventures at the Scotland Annual Dinner & Awards Ceremony on 12 September.

Eve Pollard, former editor of both the *Sunday Mirror* and *Sunday Express*, will appear at the Isle of Man branch dinner on 18 October, while Nicholas Parsons, longstanding chairman of BBC Radio 4's *Just a Minute* comedy panel show, will guest at the Manchester & District event on 14 November.

Former heavyweight world boxing champion Frank Bruno has proved a knockout draw to the South Coast dinner on 22 November, with the event already sold out.

For further details, turn to page 28 or visit cisi.org/events



The CISI East Anglia branch committee recently held its 2013 annual dinner at Norwich Cathedral. Branch President Martin Warren, Chartered FCSI provided an insight into local committee activities, while CISI Regional Director Richard Bennett updated guests on Institute-wide developments. After dinner, guests were entertained by business and financial journalist Anthony Hilton. The dinner was sponsored by Invesco Perpetual.

Top: Eve Pollard and Sir Ranulph Fiennes. Right: East Anglia branch President Martin Warren, Chartered FCSI with guest speaker Anthony Hilton



CPD

New film explores issues of risk

A Price Worth Paying? is a new film drama showing how important it is for directors and senior executives and officers to monitor all risks affecting their companies and for boards to react in the right way when a crisis strikes. A special CPD event in London on 16 October will begin a series of discussions of issues raised by the film in CISI centres around Britain and overseas.

The movie focuses on the difficult issues of executive compensation, the evaluation of risk around an acquisition in an emerging market, the depth of enquiry of an audit committee and the adequacy of the response to a serious whistle-blower allegation. It reinforces the importance of setting the right 'tone from the top' and the necessity for directors to ask all the right questions.

Written by Dechert partner Duncan Wiggetts and directed by Nick White who was shortlisted for the BAFTA 2011 Short

Film Award, *A Price Worth Paying?* features an all-star cast of television and film actors, including Phil Davis.

Alan Thomson, Chairman of Hays and a Non-Executive Director at HSBC, has called it "a superb quality film which raises awareness of important issues facing a board in the most dramatic fashion. It has been cleverly designed to provoke uncomfortable, but much needed, debate".

The film will be introduced by Duncan Wiggetts and commentary will be provided during breaks as the story unfolds by a panel of expert speakers. Before the final part of the film, there will be an open forum debate to give those in attendance the opportunity to share their views and experiences and to ask questions of the panellists and the film's creator.

For a full round-up of the coming season of CISI events, please visit: cisi.org/events



TV and film star Phil Davis is among actors appearing in *A Price Worth Paying?*

ONLINE

BEST OF THE BLOGS

1 tinyurl.com/mpt-bf

Modern portfolio theory (MPT) works most of the time; when it doesn't, we should find recourse to behavioural finance. This is the view of Chris Gilchrist, who writes that MPT exhibits two crucial flaws. First, it doesn't account for the lack of rationality of investors, with the dot-com bubble being the perfect example of investors acting on emotion more than information. Secondly, MPT assumes that investors harbour equal preferences for risk in terms of profit and loss. In fact, it takes £2 profit to make investors recover from a £1 loss.

2 tinyurl.com/bf-newyorker

If you are susceptible to the kind of investing mistakes identified by experts in behavioural finance, then rest assured - it may be a sign of intelligence. Writing in *The New Yorker*, Jonah Lehrer cites research conducted in the US that establishes a correlation between people who are more susceptible to irrational decision-making and those who score well in high school exams. Intelligent

people, Lehrer continues, tend to make mental short cuts when evaluating problems. On top of this, he says that the driving forces behind biases - the root causes of our irrationality - are largely unconscious, which means they remain impermeable to intelligence.

3 tinyurl.com/cfa-bf

The behavioural interpretation of finance does not impress everybody. Jason Voss writes on the CFA Institute's blog that the subject "frequently makes investment managers giggle", and fails to offer solutions to the problems that it "adroitly" points out. So Voss has found some of his own ways of upping his rationality, such as taking walks in the countryside and doing meditation.

See page 12 for more on behavioural finance.

Do you have a blog recommendation?

Send it to the Editor:

✉ rob.haynes@wardour.co.uk



SURVEY

CISI uncovers EU sentiment

A slim majority of financial services players think Britain should stay in the European Union - but almost one in three want to veto Brussels' meddling in financial services, according to a CISI survey. When asked "How should Britain's relationship with the European Union develop?", 55% indicated they supported continued membership and 45% backed withdrawal.

However, most of those who wanted a 'Brexit' from the institutions of the EU said that Britain should stay in the single market - the so-called 'Norwegian option'. Of those who wanted to maintain full membership, about half said that Britain should negotiate a veto over Brussels' interference in financial services.

A mere 11% favoured the status quo, though 16% backed further integration with the rest of the EU, including a pledge to adopt the euro. More than 460 people took part in the survey.

Interim results of the poll were revealed by the *London Evening Standard*, which is holding a major debate on this theme at the City's Guildhall on 9 September.

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



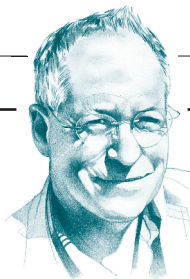
PROFESSIONAL REFRESHER

Conflicts of interest

In the current climate, it is essential to be able to identify and manage potential conflicts of interest. A new module added to the CISI's Professional Refresher online learning system examines the different types of conflicts of interest, recent high-profile cases, and the policies and procedures to put in place to avoid them occurring.

Professional Refresher consists of more than 50 modules that are free to CISI members, or for £150 to non-members. Modules are also available individually.

View the conflicts of interest module and those on subjects including cyber crime and conduct risk at cisi.org/refresher



CLAY 'MUDLARK' HARRIS

Neil Atkinson, Chartered MCSI, Vice President, BNY Mellon

Neil Atkinson, Chartered MCSI has made it all the way to Hong Kong, where his responsibilities for BNY Mellon's depository receipts business include global transaction structuring and execution, and Asia-Pacific product development.

That doesn't stop him from modestly protesting, as many successful bankers do. "I was no good with numbers in school," he says. Neil worked as a shelf-stacker and in restaurants and considered the latter as a possible career before spotting a newspaper advert for Bank of Scotland.

He joined its trustee and executory department, dealing with wills and estates. In addition to dealing with the filing and post, Neil also occasionally found himself at a deceased customer's house waiting for the water to be turned off. "For a 17-year-old, that was a bit morbid," he adds.

Another job was to go through share listings each day, write down prices and take them to the typing pool to be prepared and sent to trust clients.

Neil then was sent out into Edinburgh branches. "I worked in Princes Street - it's now a Boots - and in Stockbridge - it's now a restaurant."

At 21, he felt he needed a change, so moved to WM, an investment

accounting firm, and from there to Ivory & Sime for his first taste of processes such as corporate actions and securities contracts. "It was a great company to work for, with great people," Neil says.

By 1999, he decided he was "going to move, either to London or Glasgow", presumably equally exotic for an Edinburgh boy. The winner was London, where Neil managed a corporate actions team for Cogent.

He then joined CREST to set up a UK custody service for international

Neil worked in restaurants before spotting a job advert for Bank of Scotland

clients, before taking up a product management role for Euroclear with responsibility for international services and corporate governance.

He participated in Paul Myners' Shareholder Voting Working Group, when CREST was developing an electronic proxy voting service that Neil would later promote to companies. "I think you could say that there wasn't universal acceptance in the early days."

While at Euroclear, Neil attended a meeting about the restructuring of Royal Dutch Shell's shares where he was

introduced to, and impressed by, Bank of New York's American Depository Receipts team. "I liked the people, so I sent an email to Michael Cole-Fontayn [now BNY Mellon's Chairman for Europe, the Middle East and Africa]."

Bank of New York (as it was known before its merger with Mellon in 2007) hired him in broker/dealer services. He set up the company's depository receipts transaction structuring function in London, helping clients with primary listings in markets such as Russia to diversify their shareholder base.

One of the first things he did on moving to Hong Kong in 2011 was to join the Hong Kong Securities Institute. Through his own exams and subsequent involvement with the CISI, he is an enthusiastic advocate of networking and continued professional development.

Among his CISI involvements, he helped to set and review content for the former CREST Settlement exam. He gave a presentation on depository receipts to CISI members when he visited London this summer.

Neil also credits a time-honoured Dale Carnegie Institute course, 'How to win friends and influence people'. He says: "If it were not for that course, I might not have had the confidence to send that email to Michael Cole-Fontayn."



Neil Atkinson, Chartered MCSI

Vice President, BNY Mellon

Do you have a back-office story?

✉ mudlarklives@hotmail.co.uk

Illustration: Luke Wilson

SELECT BENEFITS

Just the ticket!



Through CISI Select Benefits, Institute members can save an average of 38% on cinema tickets.

Purchase vouchers to be used at your nearest participating cinema (including Cineworld Cinemas, ODEON, Empire and Showcase) at discounted prices. You can buy up to five pairs of cut-price cinema tickets per calendar month. Better still, these tickets are valid for a minimum of six months.

📄 Purchase cinema tickets online by logging on to CISI Select Benefits via cisi.org/memberlogin

Terms and conditions apply. See website for details. Correct at time of print. CISI Select Benefits is managed on behalf of the CISI by Parliament Hill Ltd.

BRANCHES

Two local presidents appointed

Two CISI branches have appointed new presidents. Taking on the role in the South East, following the launch of the branch last year, is Robert Forbes, Chartered FCSI, Senior Manager, Back Office Operations at Jupiter Asset Management.

The branch was set up for the benefit of members employed by financial services firms in Kent and those who commute to London from the area.

Robert said: "The branch is bringing members together to create a local business network and to provide opportunities to enhance their CPD through seminars covering topics from investment management to administration and compliance."

The branch is keen to hear from anyone who would be interested in joining its committee. For more details, please contact crm@cisi.org.

Jonathan Leece, Chartered FCSI is the new President of the Isle of Man



Robert Forbes, Chartered FCSI (left), and Jonathan Leece, Chartered FCSI

branch. He is Compliance Officer, Money Laundering Reporting Officer and Company Secretary of the Premier Group (Isle of Man), a fund manager.

He has more than 15 years of experience in the finance sector, covering areas including compliance, banking, corporate and trust and investment management.

Jonathan said: "The work the CISI has done in the Isle of Man is something to be proud of and I hope to continue with that."

Dr Nicholas
Motson,
Centre for Asset
Management
Research, Cass
Business School



Ask the experts...

WHAT IS SMART BETA?

'Smart beta' refers to an alternative method of weighting investments in indices, compared with the more conventional market capitalisation approach. The most simple example of the smart beta approach is equal weighting of the stocks in the index, while more complex approaches include weighting by risk, weighting by fundamental factors, or optimising to maximise diversification or minimise risk. With the emergence of low-volatility smart beta products over the past four years or so, it feels like these products are opening up to the masses and are being packaged into a passive-style product.

The standard approach for the past half century has been to weight stocks by their market capitalisation, so that an investor ends up holding more securities of large-cap firms and fewer of small-cap firms. Critics of this approach point out that this can lead to highly concentrated indices with a small number of stocks making up a large proportion of the index. To some extent, the rise of smart beta is seen as a solution to this problem.

A recent study, conducted by myself and colleagues Professor Andrew Clare and Professor Stephen Thomas, examined 13 smart beta alternative-weighting schemes on a common set of US stocks. We found that, over the past 43 years, all 13 'smart beta' alternative-weighting schemes we studied would have outperformed the market-cap approach, which was initially somewhat of a surprise. However, further examination showed that the bulk of this outperformance was coming from risk premia that we already know exist.

A good example of this is the approach of weighting according to fundamentals, which are effectively based off company balance sheets and sales etc. Following this type of

strategy would have saved any investor from the dot-com bubble experience. In the fundamental approach to weighting, investors wouldn't have had that exposure to dot-com companies because they didn't produce the sales and they didn't have the balance sheets. The bulk of the outperformance over the 43 years is a result of the stronger returns of value versus growth stocks, which is well known.

Another example is the outperformance of low-volatility stocks. While finance theory might suggest that the higher the risk or volatility of a stock, the higher the return should be, what we found is that stocks with low volatility actually outperform stocks with high volatility. This anomaly has been known about since the 1970s, but the finance industry has only just begun to offer products to exploit this, such as indices weighted by the inverse of volatility (or low-volatility smart beta indices).

There are some concerns about smart beta products. Notably, even though these products outperformed the cap-index approach over 43 years, there are periods when they underperform dramatically. For example, in the late 1990s you could get underperformance of up to about 40-50% over a three-year period and, behaviourally, the way that people react is through remorse. People feel more pain by underperforming a benchmark than they feel relief by outperforming it.

To read the research published by Dr Motson and his colleagues, visit tinyurl.com/cass-smartbeta

Professor Andrew Clare from Cass Business School will be a speaker at a CISI London CPD event on 14 October, entitled 'Smart Beta: Market Cap or Monkey?'. For details see cisi.org/events

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

CHARITY WALK

CISI team takes on mountain challenge

A four-strong team from the CISI will tackle Jebel Toubkal, which, at 4,167 metres, is the highest mountain in the Arab world. The trek will benefit the UK healthcare charity Merlin, which has joined Save the Children.

Team member Nicola Levett ACSI said: "We're doing our bit to help Merlin. When disaster strikes, Merlin's medical experts are there, doing whatever it takes to save lives. And when the cameras have moved on, they stay. Taking communities from emergency to recovery, Merlin works together with local professionals to revive health services in some of the world's toughest places. It's a great cause."

For more information, please visit cisi.org/merlin and follow #toubkal4merlin



From left, team members George Littlejohn MCSI, Nadia Hassan, Nicola Levett ACSI and Alex Blunden

QUICK QUIZ

Test your industry knowledge



Illustration: Cameron Law

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

Answers are on page 29.

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

Q1. Which ONE of the following is a characteristic of investment trusts?

- A) The shares are dual priced to include all charges B) The shares can only be traded with the manager C) They are open-ended collective investment vehicles D) They are permitted to have long-term borrowings

Q2. Which of the following exchanges regularly trades in CAC40 futures?

- A) NYSE Liffe B) Eurex C) ICE Futures Europe D) EDX London

Q3. A key role of the Bank for International Settlements is to provide:

- A) Financial services to corporate entities B) General banking services to private individuals C) Money laundering guidelines to national regulators D) Supervisory standards for central banks

Q4. Which ONE of the following is NOT a type of behaviour covered by the market abuse regime?

- A) Dealing in closed periods B) Improper disclosure C) Manipulating transactions D) Misuse of information

Malicious minds

As the likelihood of a major cyber attack on the financial markets grows, few of the world's major exchanges have adequate defences. Now is the time they should consider their options

RED OCTOBER, Operation High Roller and Operation Aurora. The above may read like a list of spy novels, but their contents are far from fictional. All were very real, high-profile attacks by a new breed of cyber criminal on the computer systems of banks, technology and defence companies, and national governments.

A little noticed report, slipped out by the International Organization of Securities Commissions (IOSCO), titled *Cyber-crime, Securities Markets and Systemic Risk*, contains some startling headline findings. More than half the world's securities exchanges have been attacked by hackers over the last year. Two-thirds of exchanges in the Americas have reported an attack.

You probably didn't notice. For the most part they were simple 'denial of service' attacks, where hackers overload a website or computer network with information requests to try to bring it down. There was little evidence of attempted financial theft. And none of the attacks has come close to knocking out exchanges' trading platforms. So far, that is.

Reality check

The IOSCO report, though, is a sober read. Operation High Roller siphoned as much as \$2.5bn from bank accounts in Europe, the US and Latin America. Aurora targeted Google, Adobe, Juniper Networks, Yahoo! and Northrop Grumman, modifying source code by exploiting vulnerabilities in a web browser.

In July, US authorities charged five people for their role in a prolific hacking organisation that allegedly stole more than 160 million credit card numbers, in what

prosecutors claimed amounted to the biggest case of hacking and data theft brought in US history. The alleged thefts were said to have resulted in at least \$300m in losses to financial companies and retailers.

It can only be a matter of time before somebody tries something big in financial markets, such as an operation designed to cause chaos in securities trading.

That is the view of the exchanges, not mine. Nearly 50 took part in a survey for the report, identifying a number of scenarios with far-reaching consequences. These include a halt to trading, the targeting of telecoms networks to disrupt market access, leaks of inside information and the infiltration of multiple exchanges.

For securities markets, the threat is palpable. One attack on an exchange operator has already used 'malware' – malicious computer code – to get into an application that stored potentially market-moving data on Fortune 500 companies. Imagine what could happen if the perpetrators of High Roller or Aurora decided to tackle the London Stock Exchange, NYSE or Deutsche Börse. The interconnectedness of financial markets, the lightning quick speeds at which deals take place and the proliferation of automated trading mean that, for all the safeguards in place, the effects of a sophisticated attack could ripple quickly across the globe.

What's being done about this? The IOSCO report suggests that most exchanges have formal plans in place for dealing with cyber attacks and that the most disruptive are usually detected within 48 hours of infection. But nearly a quarter of respondents admit that their systems may be unable to cope with a

large-scale attack and many think that existing sanctions for cyber crime are too puny to deter attacks.

The problem, then, is not so much a lack of awareness of the

“It is a matter of time before something big hits the financial markets”

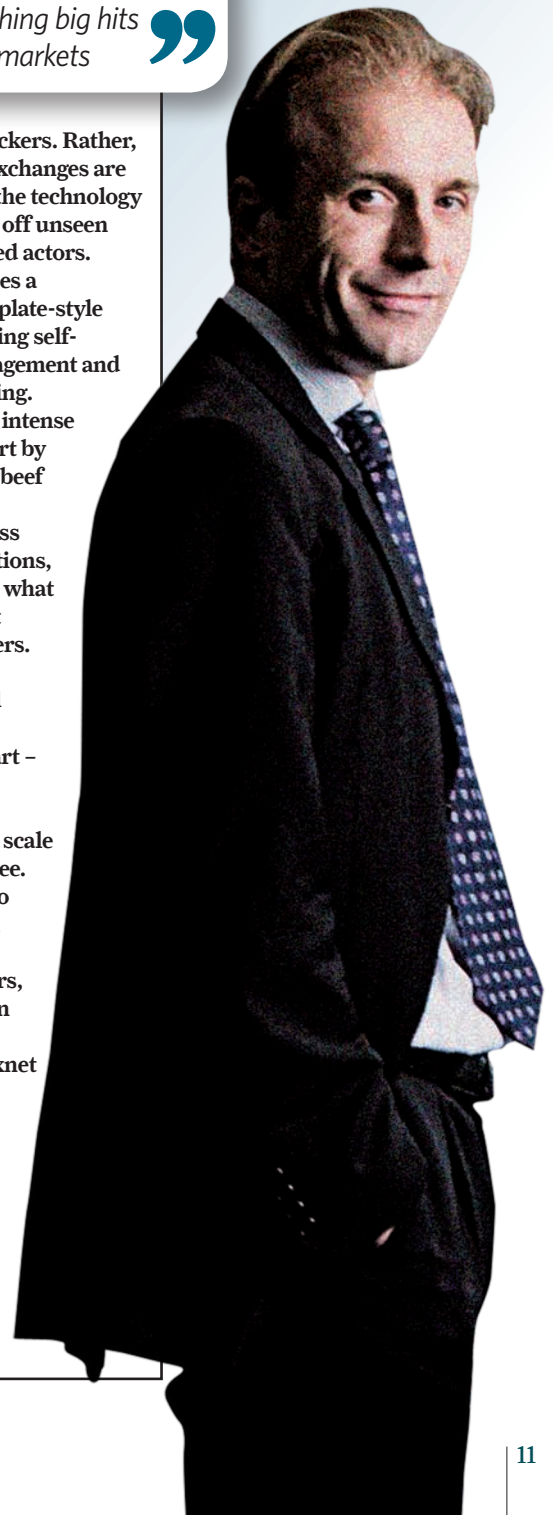
risks posed by hackers. Rather, it is a sense that exchanges are falling behind in the technology arms race to fight off unseen and well-resourced actors.

IOSCO proposes a number of boiler plate-style initiatives, including self-evident risk management and information sharing.

But without an intense cross-border effort by the authorities to beef up sanctions and enforce laws across different jurisdictions, it is hard to know what will stop the most determined hackers.

Tracking down more of them and throwing them in jail would be a start – but that demands resources and co-operation on a scale that we've yet to see. Exchanges need to invest a good deal more in the fight against the hackers, too. Perhaps when the financial equivalent of Stuxnet strikes, those resources will be forthcoming. But they'll be coming at a price. ■

Christopher Adams is the Financial Times' markets editor





Behaviour

PROBLEMS

The financial regulator is becoming increasingly worried that firms are exploiting customers' biases. What are they concerned about and how far should regulation go? **Rob Haynes** investigates

DO YOU ALWAYS MAKE rational financial decisions?

Suppose that you are in a queue at the local theatre and have paid £40 for a ticket. As you enter the theatre, you find out that you have lost your ticket, which cannot be recovered. Would you pay £40 for another one? According to research conducted by Daniel Kahneman, Professor Emeritus of Psychology and Public Affairs at Princeton University in the US, 46% of people would stump up the extra cash.

Now imagine that you are queueing to buy a similar ticket, again for £40. As you enter the theatre, you find out that you have lost £40 from your wallet. Would you still pay £40 to see the show? According to Kahneman, 88% of people say they would not.

This is a peculiar outcome, as in both scenarios the financial positions of both subjects are effectively the same.

This well-known result – an instance of an effect called 'framing' – is but one discovery about human responses that has spawned behavioural economics (and,

latterly, behavioural finance), a growing area of interest challenging the assumption of rationality that is central to traditional economic theory. The potency of Kahneman's discoveries earned him a Nobel Prize in Economics in 2002. In more recent times, behavioural finance has been attracting the attentions of the Financial Conduct Authority (FCA), as well as those at government level (see The Government's Nudge Unit, on page 14).

"Behavioural economics isn't really one unified theory," explains Nigel Sydenham, Chartered FCSI, a tutor at BPP Professional Education and author of the CISI's Professional Refresher elearning module on behavioural finance. "Rather, it is a collection of results, based mainly on psychology, that

Traditional economic theory is elegant, but leaves out many of the details that make real life more complex

impart the lesson that probably many people suspected for a long time – that consumers don't always act with rationality, especially with respect to risk and return."

That traditional theory is based on 'homo economicus', a term that describes people as able to make fully rational decisions about what is in their own best economic, or financial, interests.

"We can say traditional or neoclassical economic models are akin to the models of Newtonian physics," explains Trevor Neil MCSI, Director at Beta Group, a firm that specialises in offering insights from behavioural economics to banks and financial institutions. "These models are elegant and theoretically useful abstractions, but leave out many of the details that make real life more complex. A cornerstone of neoclassical economics is the assumption that people are generally capable of making economic decisions consistently to maximise their own interests."

Homo economicus would, for instance, have provided Kahneman with consistent



The FCA and behavioural finance

In its Occasional Paper, *Applying Behavioural Economics at the Financial Conduct Authority*, the FCA identifies ten areas where it thinks firms may be in a position to exploit their customers. These include: present bias (people make choices for immediate gratification over long-term gain); loss aversion; overconfidence; and framing.

Another is over-extrapolation, where people make predictions about the future based on only a few observations, thus underestimating uncertainty. For instance, over-extrapolation may lead a customer to assess financial advice positively on the basis of a few successful investments, which in fact may have been the result of pure luck. According to the FCA, firms may

exploit this bias by presenting irrelevant information based on small samples, meaning that it may have to regulate over what, and how, information is provided by financial firms.


Other terms of interest

Projection bias – People expect their current attitudes and preferences to continue in the future and underestimate how these may change. As a result, they may not save enough for the future or may end up paying too much for financial products.

Rules of thumb – People boil down complex decisions by using ‘heuristics’ such as choosing the most familiar option, avoiding the most ambiguous and sticking to the status quo. Firms may exploit this by guiding people towards certain products.

answers to the theatre scenarios. He would also be impervious to other effects observed in behavioural economics, such as over-extrapolation, projection bias, using rules of thumb and a host of other behavioural phenomena observed by academics (see *The FCA and behavioural finance*, left).

A new way

Given that consumers, if not finance professionals, may be susceptible to the odd cognitive slip-up, the FCA is becoming increasingly aware and concerned that unscrupulous wealth managers may be using the results of Kahneman, and many of his colleagues in academia, to exploit their customers through questionable business models, like those that instil too much confidence in their customers. To this end, its first Occasional Paper has been devoted to the theme *Applying Behavioural Economics at the Financial Conduct Authority*, and signals the authority’s intent to treat the subject more seriously in its oversight of firms. In the paper’s foreword, 

Martin Wheatley, CEO of the FCA, states: “Behavioural economics enables regulators to intervene in markets more effectively, and in new ways, to counter such business models and secure better outcomes for consumers.”

To many people, including Sydenham and Neil, this statement is to be read as an opening salvo. Given the failures of its predecessor, the FSA, in focusing primarily on the disclosure of financial information rather than the psychological factors at play when products are sold, the FCA is keen to take a more radical approach.

“Historically, the FSA’s position was to shy away from behavioural issues and to require disclosures broadly in line with the homo economicus model,” says Peter Andrews MCSI, Chief Economist at the FCA.

“One of the things that Martin Wheatley has done is to say ‘this is not realistic’. Smart regulation needs us to be realistic about the demand side.”

Part of that realism lies in recognising that not only do customers make mistakes, but that financial services firms might seek to exploit those failings. The FCA has therefore started to conduct some of its own research into behavioural economics, by identifying the types of exploitative business models that operate in the market and, in its Occasional Paper, has indicated ten areas of initial concern (see, The FCA and behavioural finance, on page 13).

“Firms are already aware of how consumers actually behave because they have close contact on a day-to-day basis,” says Andrews. “Some of the most sophisticated business models use randomised control trials to find out what is the best way of setting up a website – from the firm’s perspective – given the ways consumers will react according to different stimuli presented.”

A case in point is the issue of tracker funds, which provide a return based on an index,



Given the failures of its predecessor, the FCA is keen to take a more radical approach

less charges and certain costs not included in charges, and plus or minus a tracking error. According to the FCA, the level of these charges is not systematically related to the level of costs that lie outside of the charges, and the expected value of the tracking error is around zero.

Andrews continues: “If consumers were acting rationally, they would always choose the tracker fund with the lowest charges. But actually they don’t. Some choose funds with very large fees – almost as large as active funds. It’s really hard to see what dimension of quality could rationalise choosing an expensive tracker fund over a cheaper alternative.”

Explanations for such irrationality in the face of mathematical logic include misplaced

trust in certain brands and website design; if customers want to make quick decisions, they may end up being ‘directed’ towards a more expensive course.

More regulation

How far the FCA will eventually go in regulating the industry is a moot point. At barely more than 100 days old, it is too soon, says Andrews, to say how exactly it will design regulation and then act. More fundamentally, however, there remain some concerns in the industry that the regulator may be instilling a culture of placing too much responsibility on the shoulders of finance professionals in the event of poor investment decisions being made.

“The Occasional Paper throws a great many balls in the air by asking a lot of questions and giving examples of abuse of people by those who exploit the public’s biases,” says Neil. “The FCA’s inevitable conclusion is more regulation. A cynic might say it is the stupidity of people that should be outlawed.”

Neil points to the insurance industry to illustrate his point. “What contributes to the insurance industry’s profitability is people’s overestimation of the likelihood of their house burning down. We will gladly pay large sums annually to insure against it – many times the sum that economic theory would indicate we should, given the remote possibility of this disaster. Yet few would sleep comfortably without cover and people are happy to pay through the nose for it.”

Another question being asked is whether the FCA is in a position to decide what products best suit an investor’s own interests – a concern that applies more broadly to the ‘paternalistic’ approach of the Government’s Behavioural Insights Team, which is known more popularly as the Nudge Unit.

“The FCA has indicated it won’t get into product approval, but it will certainly look at product design,” explains Sydenham. As suggested by Wheatley, the regulator is keen to look more closely at business models, and will ask whether specific businesses are designed to cause an unacceptable level of consumer detriment.

This is a point taken up by Andrews: “We don’t want to supplant people’s preferences with the FCA’s. Rather, we think that the choices people are making in real markets probably don’t accord with their own preferences if they were in possession of all the facts and had a good understanding of the implications of their actions.” ■

Want to find out more about behavioural finance? The CISI is pleased to offer both a one-day training course and a Professional Refresher elearning module on the topic. See cisi.org/courses and cisi.org/refresher for more information

The CISI is also running ‘Behavioural Economics: the FCA and You and Your Clients’ on 15 October, held by Trevor Neil MCSI, Director, Beta Group

The Government’s Nudge Unit

The Government’s Behavioural Insights Team (BIT) – better known as the Nudge Unit – was set up in 2010 with the remit, according to its spokesperson, to apply “insights from academic research in behavioural economics and psychology to public policy and services” and to “find ways of encouraging, supporting and enabling people to make better choices for themselves”.

In less formal terms, this means ‘nudging’ people to make choices that are in their best interests, in areas as diverse as car tax, the justice system and loft insulation.

Critics of nudging, however, argue that this approach opens the door for governments to act in ways that are too paternalistic.

“We don’t think we know best what’s in a person’s interest,” continues the BIT’s spokesperson. “However, we do know that how a choice is structured affects what people do, and that in many instances, relatively simple changes to the way that these choices are structured can help people make important decisions that are in their own self-interest. A good example is the new system for automatically enrolling people in to pension schemes. The Government is, in this instance, making it easier for people to save for their retirement without reducing any previously available choice.”



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A COMMON PUBLIC complaint is that reckless bankers were not punished for the 2008 financial crisis. At the heart of this failure, many law-makers feel, was a flawed approved persons regime – a mechanism designed to ensure that regulators could properly vet key financial professionals for competence, integrity and financial soundness.

In June 2013, the Parliamentary Commission on Banking Standards (PCBS), after nearly a year of asking those involved many questions, concluded in its report, *Changing Banking for Good*, that “too many bankers... have operated in an environment of insufficient personal responsibility”. The approved persons regime, meanwhile, was condemned as “a complex and confused mess” that gave an “illusion of regulatory control” while failing to deter wrongdoers. Instead of reforming it, the PCBS’s 571-page report favoured scrapping it and starting from scratch.

However, some lawyers worry that the new system, although far from finalised, will take personal responsibility too far – reversing the burden of proof and forcing key employees of failed banks to demonstrate their innocence. The key test of the new regime will be whether it protects the public from irresponsible banking without compromising the right of bankers to justice.

Significant influence

The current approved persons system, enshrined in regulation under the Financial Services and Markets Act 2000, applies to two groups of bank employees: senior staff, who carry out ‘significant influence functions’, such as chief executives, non-executive directors, and those overseeing systems, controls and compliance; and staff with a ‘customer-dealing function’ who advise clients in a manner substantially connected with a regulated activity.

For staff to be approved, they must be assessed as ‘fit and proper’ by either the Prudential Regulation Authority or the Financial Conduct Authority (FCA), which judge fitness in several areas. Most notably, these are: (i) honesty, integrity and reputation; (ii) competence and capability; and (iii) financial soundness. Approved persons are subject to enforcement actions by the regulator, and may receive fines or removal of approved status for any wrong-doing. In practice, according to the PCBS, redress on senior staff is “as rare as hens’ teeth”. As Andy Haldane, Executive Director for Financial Stability at the Bank of England, has suggested, “the sanctions are never imposed. Everyone is ‘fit and proper’ all of the time.”

Some critics – including the PCBS – have suggested that the system fails to ensure

The current regime for approving holders of key banking positions has been severely criticised by the Parliamentary Commission on Banking Standards. What are the problems, and how can the system be improved in future? **Chris Alkan** reports

Status approved



Photo: Getty

that individual responsibilities are adequately defined, thereby restricting regulators' ability to take enforcement action.

As suggested in the PCBS report, the process "operates mostly as an initial gateway to taking up a post, rather than serving as a system through which the regulators can ensure the continuing exercise of individual responsibility at the most senior levels within banks".

Events during the financial crisis, and since, have highlighted other flaws in the approval system.

Some criticisms suggest that not all approved persons had the right background or qualifications for the jobs that they performed. Critics remarked that Fred Goodwin, who as Chief Executive presided over the collapse of Royal Bank of Scotland, had no technical bank training or formal banking qualifications. In retrospect, his background as an aggressive deal-maker made him a poor choice to head a retail bank – though few complained when RBS was riding high.

"Not all key activities within a bank were covered by the system," points out Christopher Bond, Chartered MSCI, Senior Adviser at the CISI. "For example, the people submitting the rates for the London Interbank Borrowing Rate were not approved persons." Yet the rigging of the rate compromised the reputation of the banking industry and resulted in a \$453m fine for Barclays. In addition, Bond says, certain crucial mid-office and back-office functions, such as risk, were left out.

The PCBS also criticised the system because it did not monitor approved persons after they were initially hired – only on job entry.

On the other hand, the number of people whom the FSA had to approve strained its capacity. At the last count, 156,000 individuals from across financial services were considered to be approved persons, according to data published by the British Bankers' Association (BBA).

"This put a strain on its IT system, which was unable to cope – especially as individuals moved from one firm to another," says Bond.

An additional problem was that disciplining individuals for reckless behaviour was difficult. With the sole exception of Peter Cummings, an HBOS executive who was fined £500,000 by the FSA for failing to "exercise due skill, care and diligence", the top brass at failed banks were not held to account by regulators.

"There was a veil of collective responsibility that was hard to penetrate," says Bond. "The worst that happened was that bankers lost their jobs. We did not see large-scale claw-backs of bonuses or pension reductions

to offset taxpayers' contributions, and the public mood reflects this."

The new system

The system being proposed by the PCBS, and broadly endorsed by the Government, has several new features. The first is a senior persons regime, which would vet the most senior executives at a bank – such as the chairman, chief executive, finance director and head of risk – with the goal being to make it easier to see which people were responsible for failures. "The expectation would be that the firm would map out people with significant responsibilities, who could be identified if regulators wanted to take actions against individuals," explains Paul Chisnall, Executive Director of the BBA. "This would create an HR trail that regulators could trace for clearer lines of accountability."

This scheme would be backed up by a new statement of banking standards. The current

The number of people whom the FSA had to approve strained its capacity – especially its IT system

regulator's Statements of Principle for the industry, which date back to the 1990s, focus on the behaviour of the company rather than the individual. "This is expected to be redrawn to put the focus squarely on the individual," says Chisnall. However, it is the enforcement of this new regime that many lawyers believe may go too far. The Treasury has suggested broad rules under which the onus would be on individuals to demonstrate that they took all reasonable steps to prevent a breach of them.

This has several serious drawbacks, according to Greg Brandman, a partner at Eversheds and a former manager in the FSA's Enforcement and Financial Crime Division. "The first concern is that reversing the burden of proof around individual culpability would make London a less attractive place to work and therefore potentially harm the City as a financial centre relative to rivals like Frankfurt," he says. "Merely working in a senior role in London would expose individuals to far greater risks."

Equally important, however, is the matter of justice, lawyers argue. "It is simply unjust to require somebody to prove their innocence. It has to be for the regulator to show that the individual has been at fault," Brandman says. "It is important to bear in mind that the first panel deciding on these disciplinary cases (the Regulatory Decisions Committee or RDC) is

itself an organ of the FCA. Only following an appeal would the individual's culpability be determined by a tribunal independent of the regulator." That appears to be a politically driven reaction to the last financial crisis, he adds. "While individual accountability at a senior level is clearly desirable, reversing the burden of proof crosses the line for me. It is unjust and people may query whether it is born of an instinct for revenge."

There would also be a new criminal offence of reckless misconduct in the management of a bank. As a criminal offence, the burden of proof would be on the prosecution. Certainly, unless this new offence is carefully defined, it risks undermining the rights of bankers. Prior to the financial crisis, bank chiefs were often egged on by shareholders to pursue ambitious returns on equity, and that inevitably involved taking bolder risks.

"The line between poor business judgment and reckless criminal misconduct may be hard to draw, but will inevitably be judged with hindsight," says Ben Kingsley, a partner at Slaughter and May. During the financial crisis, for example, many banks took what might now be characterised as daredevil risks. Fred Goodwin was named Forbes Businessman of the Year in 2002. At the time, his willingness to make big bets was not considered a liability.

Of course, the replacement for the approved persons regime has not yet been pinned down. Although the Treasury has welcomed the recommendations of the PCBS, it has not yet published the required draft legislation and it still remains for the regulators to turn them into more detailed plans. Once they have done so, the industry will have an opportunity to suggest changes and debate the proposals. The industry may succeed in toning down parts of the planned new system that trouble managers and lawyers. The hope must be that holding bankers to account does not come at the cost of compromising their legal rights. ■

The current regime for approved persons

Number of bank employees in the UK: 450,000
Approved persons from across all financial services: 156,000
Bank employees in the approved persons regime: 26,575
Of which, holders of significant influence functions: 1,180
Of which, holders of customer-dealing functions: 25,395

A distinguished civil servant with a keen interest in security issues, Sir David Omand GCB speaks to **Rob Haynes** about risk and the virtues of online protection

Safety first

WHEN HE CONFESSES that his idea of relaxation is distinctly Calvinist, you get the idea that Sir David Omand GCB is not an idle retiree. Having given up full-time employment in 2005, following a career that glittered brightest during spells heading up the Cabinet Office, the Home Office and GCHQ – the UK’s main signals intelligence agency – Sir David chose study as a useful means of spending his extra time. “I found it very relaxing,” he says of the experience, which involved studying for a degree in mathematics and theoretical physics at the Open University. “And I now know more of what the quants in the City are up to with their ever more sophisticated risk models – and how they came unstuck in 2008!”

However, it is a different concept of risk – one connected inextricably with national security – that best describes Sir David’s professional endeavours, his role at the centre of government and the subjects he pursues in retirement.

“After having graduated from Cambridge with a degree in economics, I joined GCHQ, then a highly secret organisation, but now well known as both the UK’s signals intelligence agency and also the UK Government’s centre of technical expertise in cyber security.” He subsequently served as the first UK Security and Intelligence Co-ordinator, responsible for the professional health of the intelligence community, national

counter-terrorism strategy and national security, and was the UK Government’s Chief Crisis Manager for Civil Contingencies.

Battling cyber crime

“Working in the Ministry of Defence on national security issues gave me insights into the new threats that were emerging after the Cold War.” Prime among these, Sir David says, is the issue of cyber security – “a fascinating subject that combines advanced mathematics with an understanding of the psychology of human behaviour”.

It is a theme that proves more relevant in today’s world of international terrorism and the proliferation of the internet into many

CV snapshot

2007 – Gains a first class degree with the Open University in mathematics and theoretical physics

2006 – Joins the War Studies Department of King’s College London as Visiting Professor

2004 – Appointed Knight Grand Cross of the Order of the Bath (GCB)

2002–2005 – Becomes UK Security and Intelligence Co-ordinator and Permanent Secretary Cabinet Office

2000 – Appointed Knight Commander of the Order of the Bath (KCB)

1997–2000 – Becomes Permanent Secretary at the Home Office

1996–1997 – Becomes Director of GCHQ

1993–1996 – Becomes Deputy Under Secretary of State for Policy at the Ministry of Defence

1969 Graduates from Cambridge University with a First in economics and joins GCHQ

1947 Born Glasgow, Scotland



Photo: Alexander McIntyre

areas of daily life, and one that bears just a little relevance to finance. Of the risks posed to financial services firms, he says: “Cyber crime is huge and rising, often facilitated by an insider, something HR departments and managers need to be alert to.”

Despite his words of caution, Sir David is an optimist about taking on the cyber criminals, and the opportunities that robustness present for the UK. “I would start with the opportunity, not the threat. We have the chance, if government and the private sector work together, to make the UK one of the safest places in the world to do business in an age of cyber.” Providing excellent security, Sir David believes, can be a positive product discriminator for the UK. “We already are the leading global financial sector in terms of innovation in professional services – but we have to show that in this area, as in so many others, we can keep our and our clients’ secrets and money safe.”

With more than a nod to his own feelings about those who exploit cyber security, Sir David has coined the acronym, CESSPIT, to remind us of the dangers: Crime, Espionage, Sabotage and Subversion Perverting Innovations in Technology – all threats to our economic and social well-being.

These, he sees, are very traditional human

activities, but now we see them being carried out in cyberspace. “The dominant characteristic of cyberspace is that it shrinks distance – attacks can come from anywhere on the globe, and they do – and it shrinks time – it takes less than 150 milliseconds for the effect of a button pressed on a keyboard in China to hit the network of a City firm. And

Sir David is an optimist about taking on the cyber criminals and sees the threat as an opportunity

cyberspace makes it easy for the attacker to hide their tracks.”

However, Sir David is far from an advocate of authoritarian online rule, even at a time when revelations about the co-operation of GCHQ with its American allies have made front page news. He believes in a liberty – in the vein of 20th-century British philosopher Sir Isaiah Berlin – where people are free from threats, rather than simply free to do whatever they wish, and explores these ideas in his book, *Securing the State*, described by Professor Michael Clarke, Director General of the Royal United Services Institute, as “a masterly account of both the principles and the practice of good intelligence”. In the book, Sir David argues for a conceptual rethink of nationhood – away from the secret state to the protecting state.

Sharpening the mind

If Berlin’s ideas sum up Sir David’s leanings on liberty, we should perhaps look to Berlin’s essay, *The Hedgehog and the Fox*, for a description of his intellectual approach. Thinkers, Berlin lightheartedly suggested, fall into one of two categories: foxes, who know a little about a great number of subjects; and hedgehogs, who study one or two themes but at greater depth. Given his dedication to issues of security and risk, whether from a mathematical or psychological perspective, you could be forgiven for thinking that Sir David is not a fox.

Warfare, and its academic study, now preoccupies much of Sir David’s time, which he spends as a Visiting Professor in the War Studies Department at King’s College London, which lists among his areas of expertise the historical development of the UK intelligence community. His particular foray has been studying these subjects from a strategic perspective – a pleasure that “sharpen’s one’s mind”, he says, in a way you rarely find time for in service when preoccupied with actually managing the issues of the moment. (This mind is also sharpened through his involvement, since 2009, with defence specialists Babcock, where he serves as Senior Independent Director.)

Should the City encourage whistle-blowers?

Given the threats to what Sir David calls a firm’s ‘information crown jewels’, he believes that whistle-blowing remains an important exercise that should be encouraged in the right circumstances. He says: “Genuine whistle-blowers are protected in the UK by law (the Public Interest Disclosure Act 1998) because they perform a social function in exposing suspected wrong-doing. But genuine whistle-blowers go to the top of their organisation, such as the senior independent director, or to the regulators or to the police so that suspicions can be properly investigated and the true facts established and if necessary evidence gathered before it is all over the media. Genuine whistle-blowers want to see impartial investigation and things put right, not trial by media that is liable unnecessarily and sometimes quite unfairly to damage the organisation they work for and therefore harm the interests of all the staff. We can all think of leakers who are personally or ideologically motivated and out to wreak havoc with the maximum publicity.”

When he became the UK Security and Intelligence Co-ordinator as part of his role as Permanent Secretary at the Cabinet Office in 2002, his department could already see the wider problem that cyber security poses, that the protection and resilience of the country’s critical national infrastructure would become a key national priority. In Sir David’s view the world is yet to witness a cyber war, but he does concede that one is getting closer. “Something changed over the last year with (almost certainly originating from Iran) a cyber attack on Aramco, which supplies around one-tenth of the world’s oil, that destroyed or compromised around 30,000 of their computers and 2,000 servers.”

He also cites attacks on the IT systems of Qatar’s RasGas, a natural-gas company, and on some 50 American financial institutions – all relatively simple attacks that will in future be replaced by more sophisticated ones. “We need to be ready.” ■

For more on cyber crime, the CISI is launching a Professional Refresher elearning module on cyber crime. See cisi.org/refresher

In the coffers

Five years after the collapse of Lehman Brothers and the onset of the financial crisis, are banks' capital adequacy rules strict enough? In the first part of the S&I's focus on the industry's response, **Dan Barnes** finds fault with the new regulations

IF YOU CUT a cross-section through a longbow you will see layers of wood. Some are harder, some are softer, and their different proportions determine how much flex the bow can take and how quickly it will straighten when it is bent and released.

The assets that a bank holds serve a similar function. Whether they are flexible or rigid, weak or strong, and the proportion of each, determine the bank's characteristics in coping with market circumstances. Following the onset of the financial crisis with the collapse of Lehman Brothers in September 2008, international authorities decided to try and strengthen banks against future shocks by increasing their capital adequacy ratios (CARs), which provide a measure of resilience.

The CAR is calculated by dividing the sum of the bank's tier-1 and tier-2 capital by the bank's risk-weighted assets (see box, right). The international Basel Committee on Banking Supervision (BCBS) sets the CAR and other ratios that dictate the capital adequacy banks must adhere to. These are fixed under the Basel Accords, which are agreed between the BCBS's member countries. The third version of the Basel Accord's capital rules was proposed in June 2011, although not without controversy.

"It would be far better if the banks had a much higher ratio of equity to debt," says Professor Charles Goodhart, Director of the Financial Regulation Research Programme at the London School of Economics. "The banks would be far safer."

"[Regulators must] look before [they] leap and think what other consequences might arise," says David Green, a consultant and author on central banking and financial regulation. "The most important one is that if there is a desire to make banks absolutely bomb proof, then this comes at a price."

In the run up to the financial crisis, the CAR was seen to decline in firms that eventually failed. For example, Lehman Brothers saw a drop in CAR from 9.9% in 2003 to 7.3% in 2007. A European



Image: Getty

Commission memo, dated 16 July 2013, observed that the difference between firms that failed and those that did not came down to “the quality and the level of the capital base, the availability of the capital base, liquidity management and the effectiveness of their internal and corporate governance”.

A measure of success in Europe

The BCBS has recommended under Basel III that, by 2015, a bank should hold 8.5% of tier-1 capital (including a 2.5% buffer) and, if required by the national regulator, a further 2.5%. Basel II had previously stipulated 4% of tier-1 capital.

The European Banking Authority (EBA), transposing Basel III via Capital Requirements Directive IV and the Capital Requirements Regulation, has set the minimum core tier-1 at 9%. Piers Haben, Deputy Secretary General at the EBA, says that for the 61 largest banks that the EBA tracks, which account for a majority of assets in the EU, the average core tier-1 ratio was 11% at the end of 2012, although some held less than 9%. In the US, the same measure for banks was 11.3%. That is also higher than the 6% average for tier-1 capital, a broader category, which Japanese banks had achieved by 2000, having recovered from the Asian crisis of 1997–98.

“Are current capital levels enough to give confidence to investors?” asks Haben. “If you would say they are in the US, then I would say they are here. And these are very favourable comparisons to what we see in Asia and elsewhere.”

Selwyn Blair-Ford, Head of Global Regulatory Policy at financial services compliance advisory firm Wolters Kluwer, also raises concerns that the acceptance of certain assets, including joint stock and capital from mutual or co-operative firms, as components of capital categories in Europe, is not mirrored elsewhere, undermining Europe’s efforts somewhat.

“I am concerned that Europe has a more flexible way of defining what constitutes tier-1 and tier-2 capital than other jurisdictions,” he says. “Europe is so insular in its delivery of Basel III that it does not seem motivated to bring the definition of capital up to the same standard as banks in Japan and Singapore, for example. That means that even with the same capital ratios, the banks in Singapore and Japan will look a safer bet than European institutions.”

More broadly, there are concerns around the leverage ratio – the proportion of tier-1 capital divided by the bank’s total assets (or equity to debt) – which has been set at a minimum of 3% by the BCBS. The top eight US banks have an average leverage ratio of 6.17%, which at first glance appears to put

that of the top 16 European banks, with an average of 3.61%, in the shade. There are moves in the US to raise the leverage ratio.

“EU banks are more highly levered on average, but the argument that the EU is massively over-levered compared with the US is not straightforward,” says Haben.

The structural system in the US allows banks to shift their mortgages off their balance sheets and keep them with Fannie Mae and Freddie Mac – government-backed bodies that support US mortgage lenders. “Mortgages tend to be low risk and if you take those off your balance sheet, you change your leverage ratios, although not your risk profile very much,” says Haben. “In addition, the way the US accounting system works is different to those of the International Accounting Standards Board.”

A recent study by the Federal Deposit Insurance Corporation, the US’s bank-guarantee scheme, found that the top eight US banks had a leverage ratio of 3.88% when calculated under International Financial Reporting Standards.

Across the board

Even if the regional inconsistencies are pushed to one side, there are reasons to be worried about the broader regulation, says Professor Goodhart.

“The present [proposed] minimum leverage ratio, the equity-to-debt ratio, at 3% is insufficient if there should be a significant downturn in the value of certain assets that the banks hold. The amount of equity that the banks hold is, in most people’s view, not sufficient to maintain stability.”

The problem is not the agreement of the amount of equity capital a bank should hold, he asserts, but rather how the bank should arrive at the correct level.

“There is no enthusiasm in any bank for raising more equity, because to do so at a time

When banks have to raise equity ratios, they typically cut back on their assets

when the market price of equity is low is to dilute the overall return on equity for existing stock holders,” Goodhart says. “CEOs hold a lot of equity themselves and are responsible to their shareholders, who, if annoyed, might boot them out. That means they are not going to raise new equity except under extreme pressure, such as the Prudential Regulation Authority and Bank of England were exerting on Barclays until recently.”

As a consequence, when banks are asked to raise leverage ratios, they typically do so by cutting back on assets, which is a process known as deleveraging.

Tiers for fears

Europe, Asia and the US employ different criteria for what should be included in the two main tiers of capital. The Bank for International Settlements (BIS) offers a comprehensive breakdown of how banks should treat each tier, within the following broad framework:

Common equity tier-1 capital – funds raised in such a way that they can be used to absorb losses without hurting the bank’s operations, such as equity and undistributed profits

Tier-1 capital – the sum of common equity tier-1 and additional tier-1 capital, which includes national regulatory adjustments

Tier-2 capital – funds that will absorb losses only if the bank is collapsing, such as undisclosed reserves and hybrid instruments

To read the BIS’s proposals, visit tinyurl.com/bcbs212

That, says Goodhart, “is hideously counterproductive to a recovery in the health of the world’s economy”.

A dangerous method

There are also question marks over the methods used by banks to calculate their ratios. Michael Symonds, a credit analyst at broker Daiwa, notes that public disclosure of the leverage ratio, a requirement under the proposals for Basel III, has become the norm for European banks over the last quarter, which has led to it garnering attention among market participants and investors.

“My view is that excessive reliance on a leverage ratio is imprudent, but that the focus of regulators should be on the consistent application of asset risk weights in calculating regular capital ratios,” he says.

A recent study by the EBA found that the measurement of risk-weighted assets by European banks was inconsistent, which may imply that their ratios are also inconsistent. Haben says that work by the BCBS on a global scale found similar issues. The EBA plans to address some of those discrepancies by improving transparency, allowing an observer to better scrutinise portfolios of assets.

In the meantime, investors would do well to be cautious over the figures they read and not compare apples with oranges. ■

The second part of the S&IR’s coverage of the post-Lehman’s landscape will feature in the October edition

In June 2013, the United Arab Emirates (UAE) and Qatar indices were upgraded from frontier to emerging-market status. **Nigel Sillitoe** takes a peek at likely changes in the region

CHANGE of FORTUNE

THE DECISION BY MSCI to elevate the UAE and Qatar indices to its 'universe' of emerging markets, with effect from May 2014, is viewed in the Gulf region as a positive development. As investment managers and their clients seek sources of greater return, such 'promotions' are closely watched in the main financial centres. But how do market participants in the region perceive the developments?

A study gauging the sentiments of 141 investors and other market participants, predominantly based in the UAE, shows near unanimity that the upgrade will boost inflows of funds to the two markets. In fact, the research, carried out by Insight Discovery and Zawya, shows that only 4% of respondents think that this will not be the case.

Although 28% of survey respondents believe that it is too early to quantify the incremental

investment flows that will come to the two markets, about one-quarter expect that the amount will exceed \$1bn annually. Another 23% believe that the amount will be between \$500m and \$1bn per annum.

Which asset managers will be the winners?

There is a diversity of views as to which asset management companies will benefit most from the UAE and Qatar indices moving up the pecking order. Some 58% of survey respondents believe that the main beneficiaries will be international asset management companies that have a local presence in the Gulf Co-operation Council (GCC) countries – Saudi Arabia, Kuwait, the UAE, Qatar, Bahrain and Oman – and which offer regional funds. Another 33% identify local or regional asset management companies. The remaining 9% think that the main winners will be international asset management companies that do not have a regional presence, but which can offer regional funds.

So who is next?

Some 36% of survey respondents identified Kuwait as the regional market most likely to be next elevated by MSCI to emerging-market status. Almost as many, 35%, say that this is true of Oman. Others identified Jordan (14%), Bahrain (11%) and Lebanon (4%) (see chart, Which GCC countries will be next to be elevated to emerging-market status?, right).

More than 80% of those taking part in the research think that the decision in relation to the UAE and Qatar will accelerate the reclassification of Saudi Arabia's Tadawul stock exchange.

A risk factor

A final survey question highlights a potential risk. When asked whether they foresee an asset price bubble in any GCC market over the next three-to-five years, arising from the MSCI upgrade, 48% replied in the affirmative. ■

Nigel Sillitoe is Chief Executive Officer of Insight Discovery, based in Dubai



What impresses MSCI about the UAE and Qatar?

UAE

- Improvements made by the Security and Commodities Authority, the Dubai Financial Market and the Abu Dhabi Securities Exchange with respect to the delivery versus payment model
- introduction of a proper false trade mechanism on both exchanges
- new regulations governing stock lending/borrowing
- most market participants express no major concern over safekeeping of investors' assets and are starting to move away from the dual-account structure.

Qatar

- Commitment by the Qatar Government to increase foreign ownership limits (FOLs)
- several companies have asked the Qatar Exchange to use total market capitalisation rather than free-float market capitalisation, which will boost effective FOLs. The MSCI argues that the Qatar Government should lift FOLs to above 25%.

MSCI factfile

In 1988, MSCI launched the first comprehensive Emerging Markets Index. Since then, the emerging-market indices have evolved considerably, moving from about 1% of the global equity opportunity set in 1988 to 13% in 2012.

The indices cover more than 2,700 securities in 23 markets that are currently classified as emerging-market countries.

MSCI regularly reviews the market classification of all countries included (or under consideration for inclusion) in its global equity universe, based on extensive discussions with the investment community. Using the MSCI Market Classification Framework, it examines each country's economic development, size, liquidity and market accessibility in order to classify it in a given investment 'universe'. Each June, MSCI communicates its conclusions on the list of countries under review and announces the new list of countries, if any, under review for potential market reclassification in the upcoming cycle.



Photo: Getty

Russia's eastern promise

Like the Gulf states, mighty Russia sees the advantage of promotion through the country classification ranks. Under the FTSE scheme, it is at present classed as 'secondary emerging'. The FTSE criteria cover six key areas: World Bank gross national income per capita rating, which in Russia's case is 'upper middle'; creditworthiness, currently at 'investment grade'; market and regulatory environment; custody and settlement; dealing landscape; and whether or not there is a developed derivatives market.

The table below indicates the key criteria in the custody and settlement area. Overall, Russia is advancing strongly. Since 2011, the number of red 'Not Mets' have declined, and the number of green 'pass' ratings have increased. In recent years, the Russian Government has been putting increased emphasis on the growth of its financial services industry. There is a particular focus on how the industry can play a greater role in offering diverse and innovative ways to put Russia's natural-resource wealth to work to drive

growth and development across all sectors of the economy.

In 2010, the Russian Government set up the Moscow International Financial Centre (MIFC) initiative to lead this project and to ensure that international co-operation was at the forefront. Following discussions with the Lord Mayor, the MIFC formed a strategic relationship with the City of London.

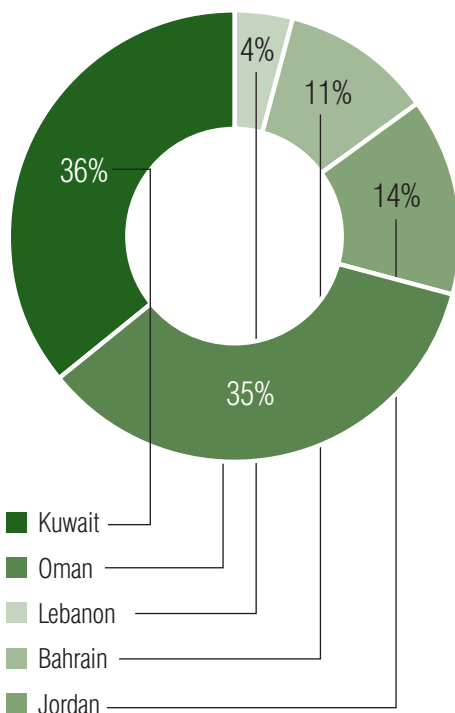
Significant progress has been made through the legislature and market development in the securities and derivatives stream. The education, training and qualifications stream, led by the CISI on behalf of a group of major UK professional bodies, is also making good progress with its ten-point plan.

George Littlejohn MCSI,
Senior Adviser at the CISI



Custody and settlement The positive result of the March 2013 FTSE Country Classification with the advancement of the Russian market

Which GCC countries will be next to be elevated to emerging-market status?



Source: Insight Discovery/Zawya

DEV = Developed, ADV EMG = Advance emerging, 2ND EMG = Secondary emerging, FRT = Frontier

Criteria	DEV	ADV EMG	2013	2012	2011	2010	2nd EMG	FRT
Settlement – Rare incidence of failed trades	X	X	Pass	Pass	Pass	Pass	X	X
Custody – Sufficient competition to ensure high quality custodian services	X	X	Restricted	Restricted	Restricted	Pass	X	
Clearing and settlement – T+3, T+5 for Frontier	X	X	Restricted T+4	Restricted T+4	Restricted T+4	T+7	X	X
Stock lending is permitted	X		Not Met	Not Met	Not Met	Not Met		
Settlement – Free delivery available	X		Pass	Restricted	Not Met	Not Met		
Custody – Omnibus account facilities available to international investors	X	X	Pass	Restricted	Not Met	Not Met		

Source: FTSE Country Classification Committee, March 2013

A bank's non-executive director may have coerced an employee into providing off-the-record services for his own firm's benefit. How would you deal with the situation?

Personal FAVOURS

FIONA REET IS a director of growing private bank Newclea, which employs more than 250 people across a number of departments. Fiona is reading over her papers in preparation for a routine audit committee meeting when her colleague Jessica Adams knocks on the door.

Jessica is a highly regarded senior manager who often works late, generally leaving well after her colleagues. In the past, Fiona has checked that Jessica is not under too much pressure and she has cheerfully replied that she is just catching up.

Fiona has a great deal of professional respect for Jessica as she has been with the bank for more than ten years and always makes a positive impression on clients. Newclea has received more positive comments about her than any other member of the team.

After the meeting, one of the non-executive directors, Michael Synthetic, asks to see Fiona and suggests a discussion in her office.

Michael, who has been a non-executive director of Newclea for five years, moved jobs a few months ago. He now runs a large finance company, LargeS, that specialises in providing point-of-sale finance for a group of consumer electronics stores.

LargeS has a reputation for offering a fast service and financing big-ticket items at the top end of the retail market. Fiona is aware that some of Newclea's customers have financial dealings with LargeS.

Michael is uncharacteristically nervous when he meets Fiona, telling her that he wants to formalise a private arrangement he has with Newclea. Seeing Fiona's concerned look, he quickly reassures her that it is a relatively small matter.

He explains that, several years ago, he worked for Acorns – a firm similar to LargeS. During his time at Acorns, he experienced delays in obtaining answers to routine status enquiries on the creditworthiness of Newclea's customers.

Acorns had all the necessary authorisations signed by the mutual customers, but the delay in receiving replies from Newclea (for which his firm had paid a fee) meant Acorns was unable to complete the necessary credit checks on time and lost business as a result. Michael raised this matter following a board meeting and he understood that the Chairman later asked Jessica to resolve the problem.

Michael reports that Jessica was extremely helpful. Indeed, he was so impressed that he wrote to the Chairman praising Jessica for her diligence.

Some weeks later, further delays arose in Acorns' credit-check process with Newclea and Michael phoned Jessica to ask for her help once again. Explaining to Michael that she had

Michael is uncharacteristically nervous when he meets Fiona, telling her that he wants to formalise a private arrangement he has with Newclea

been on holiday, Jessica volunteered to act as Acorns' point of contact and told him he could rely on her to oversee status enquiries.

Michael tells Fiona he believes he deserved this level of service as a customer – whether he was a director of the bank or not.

Michael explains to Fiona that he arranged for his colleague Wendy to be Acorns' point of contact with Jessica and was no longer directly involved after this stage. Before leaving Acorns, he became aware that Jessica and Wendy had struck up a friendship and were corresponding frequently, up to several times a day – with Jessica almost always replying to Wendy's emails at the end of the working day.

However, having now moved to LargeS, the requirement for status enquiries is significantly greater and Michael wants to

negotiate a discounted rate for the 'express' service status enquiries. He is also keen that the private arrangement between Wendy at Acorns and Jessica should be formalised.

Concerned by Michael's revelations, Fiona later meets with Jessica and asks her about the 'arrangement'. Jessica says that she has been helping Michael's former firm Acorns for a couple of years since being asked to do so by the Chairman. When Fiona expresses surprise that the Chairman would have said anything directly, Jessica admits that he hadn't actually asked her specifically to provide Michael or his firm with special arrangements. However, she decided herself 'to go the extra mile' to provide exemplary service to Acorns.

Jessica says that, as a result of the initial problems with Acorns' status enquiries, she built up a relationship with Wendy that she



Illustration: iStock

then felt obliged to continue. She and Wendy met for lunch a few times and, as she felt more comfortable, willingly continued with the arrangement. Jessica confirms that she knew Michael had left Acorns a few months ago and she hadn't spoken to or emailed him since the original problem years ago.

Becoming increasingly concerned by what she is hearing, Fiona asks Jessica to detail her arrangement with Wendy. Jessica tells her that she would typically receive an email titled 'Asset allocation' and would reply in the same manner. Fiona asks Jessica to show her an example, but Jessica says she always deleted both the inward email and the reply on the grounds of 'client confidentiality'. Jessica is uncharacteristically subdued when asked why the email was headed with such a misleading subject.

Finally, Fiona asks Jessica whether she appreciates that the income lost to the bank would have been more than sufficient to pay her salary. At this point, Jessica bursts into tears, claiming she was only following the Chairman's instructions and trying to be helpful to an important customer and

non-executive director. She adds that she didn't receive any gifts or money from Michael, Wendy or Acorns – only an occasional, inexpensive lunch. In return, she frequently stayed late to deal with the volume of status enquiries. ■

What course of action would you advise Fiona to take?

1. Respond sympathetically to Jessica. She was clearly coerced by Michael who took advantage of his position, but pursue the matter with Michael and Acorns.
2. Sack Jessica and seek financial restitution from Michael and Acorns.
3. Sack Jessica and involve the police.
4. Allow Jessica to resign and sever the connection with Michael. Amend your firm's procedures, but decide to take no external action since it would be bad for your firm's reputation.

Visit cisi.org/personalfavours to let us know your favoured option. This, together with the opinion of the CISI, will be published in the November/December edition of the S&IR.

Mixed messages **THE VERDICT**

Bill, an employee of an asset management firm, is liberal in his comments on Facebook about the shortcomings of his company's senior management team. His remarks are distributed on the social media site to a small circle of 'friends', including Bill's cousin Greg, who is poised to join the firm, and Sam, another employee who knows Bill's boss Howard well. Sam reports these remarks to Howard and to Pandora in HR, who is also concerned about the possible impact on Greg. The firm has recently instituted a new social media policy, which will now be tested.

This was the dilemma that appeared in the June edition of the *S&IR*. Readers were invited to vote in a poll on the CISI website on the course of action Howard and Pandora should take.

The CISI response

Of the four courses of action offered, more than two-thirds of respondents suggested that Bill should simply be warned and Greg should still be hired – with company policies reinforced to both of them. Given the relative newness of the firm's policy, its untested status and the private nature of the communication, this gentle response is understandable. Greg has not contravened any company guidance and is not even an employee. Bill is well regarded in other respects and has not made similar transgressions in the past.

However, there was a growing recognition of the potential perils around the use of social media such as Facebook, as well as private emails. Newspapers regularly report incidents that initially appear harmless, but often escalate, resulting in real damage to reputation and, on occasion, financial loss.

The next most popular choices, but well behind the favoured option, involved disciplinary action against Bill with termination of Greg's contract (15%) or referring the matter to the compliance and legal departments (14%) – the implication being that the association with Bill could somehow taint Greg or that his cousin's remarks undermine the trust between him and the firm. However, formal disciplinary action may be severe in the context of a new, untested policy largely related to a private conversation.

Only two readers felt that Bill's employment should be terminated – the most extreme view, particularly given the policy is relatively new and the exchanges took place outside the office.

In this case, we concur with the majority in our preferred course of action. In future, however, the vexatious realm of social media is likely to command greater employer attention.

Need to read

The latest publications and study aids supporting CISI qualifications

TWO NEW DIPLOMA WORKBOOKS



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Regulation & Compliance will test candidates' knowledge and understanding of the legal, regulatory and ethical framework of the UK financial services industry and their ability to apply such knowledge and understanding in a practical manner. The corresponding workbook (covering the 3 December 2013 exam sitting only) is out now.

Price: £150 (each title)

NEW WORKBOOK AND EARNING EDITION



Investment, Risk & Taxation

This workbook is designed to help candidates understand how to assess a client's current financial position, make suitable investment recommendations, monitor performance and respond

appropriately to changing needs and circumstances. A new edition of the workbook and corresponding elearning product (covering exams from 31 October 2013) is out now.

Topics covered include:

- asset classes and the macro-economic environment
- principles of investment risk and return
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- investment products, planning and advice.

Price: £100 for combined workbook and elearning product

NEW WORKBOOK AND EARNING EDITION



Fundamentals of Financial Services

Fundamentals of Financial Services is an important first step in developing the essential basic knowledge required for working in financial services.

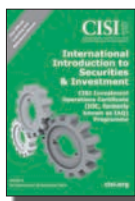
Candidates will learn about the industry and commonly used financial products, such as shares, bonds and insurance.

The Ofqual-regulated qualification, which is recognised as a level-2 award on the Qualifications & Credit Framework, is ideally suited to new or junior employees within the industry. It is also appropriate for school leavers who are considering a career in finance.

The *Fundamentals of Financial Services* workbook and corresponding elearning product (covering exams to 31 July 2015) are out now.

Price: £80 for combined workbook and elearning product

NEW WORKBOOK AND EARNING EDITION



International Introduction to Securities & Investment

International Introduction to Securities & Investment provides an introduction to the world of finance and the global financial services industry for candidates working outside the UK. A new edition of the CISI's workbook and corresponding elearning product (covering exams from 10 September 2013) is out now.

Topics covered include:

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

Price: £100 for combined workbook and elearning product

NEW WORKBOOKS AND EARNING EDITIONS

Regulatory titles

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



UK Financial Regulation

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



UK Regulation & Professional Integrity

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

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

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

ONLINE TOOL

Professional Refresher



The CISI's Professional Refresher helps you remain up to date with

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

Price: Free for all CISI members, otherwise it costs £150 per user. There are also tailored module packages and a reporting management site available for individual firms. Visit cisi.org/refresher for further details.

New modules are added to the site on a regular basis and existing ones are reviewed by practitioners.

All modules are in line with the new UK regulatory environment. At the end of each module, there is a test which will help you to determine how much knowledge you have gained.

The product currently consists of more than 50 modules, including investment principles and risk, corporate actions and financial crime.

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

External specialists

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

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

The CISI would particularly welcome applications from specialists to assist with developing exams for Advanced Global Securities Operations, Advanced Operational Risk, Commodity Derivatives, Corporate Finance Regulation, Derivatives (level 3 and 4), Exchange-Traded Derivatives, OTC Derivatives, Operational Risk and Securities (level 3).

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

Diary

Events to attend over the coming months



Conferences

10 OCTOBER CISI Training & Competence Conference 2013:

Shedding Light on the New T&C Regime

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

Training and competence is a top priority for the new regulator following the Retail Distribution Review. This conference will not only analyse the latest regulatory developments but also give practical examples of how to implement an effective T&C scheme and provide an opportunity to benchmark with peers.

Expert speakers will include:

Paul Slater FCSI, Director, Training & Competence, Coutts & Co
Ian Porter MCSI, Head of Wealth Management, Sanlam Private Investments Wealth Management (UK). Colin Neil, Training & Competence Manager, UBS Wealth Management. Clive Shelton, Chartered FCSI, Risk & Compliance Director, International Financial Data Services. Nicholas Walmsley, Director and Head of Compliance & Risk Culture Training, Deutsche Bank

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CONFERENCE SPONSORSHIP

To consider taking up a sponsorship or exhibition opportunity at this conference, please contact Fran Murrells on +44 20 7645 0725 or email fran.murrells@cisi.org

CISI Annual Integrity Debate

25 SEPTEMBER CISI Annual Integrity Debate

Plasterers' Hall, One London Wall, London, EC2

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

CPD training courses

Venue: London, unless otherwise stated

17 SEPTEMBER NEW COURSE: *The New Global Tax Transparency – Its Impact on Your Clients*† (half day, morning) £300

18 SEPTEMBER *Anti-Money Laundering & Terrorist Financing Introductory Workshop*† £500

19 SEPTEMBER *Ethical Finance – What's In It For Me?* † (half day, morning) £300

24 SEPTEMBER *Essentials of Supervision*† £500

3 OCTOBER *Updated Thinking for Packaged Products*† £500

8 OCTOBER *Retail Derivatives Update* † (half day, morning) £300

8 OCTOBER *Retail Securities Update*† (half day, afternoon) £300

10 OCTOBER NEW COURSE: *Corporate Governance Best Practice*† £500

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

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

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

Member and Fellow discounts

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

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

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

CISI London Annual Dinner

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

Sponsor



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

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

London CPD events

17 SEPTEMBER *LIBOR – the Way Ahead*†

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

18 SEPTEMBER *How Does Globalisation Affect Inequality?*†

Museum of London, 150 London Wall, EC2

26 SEPTEMBER *Bank Strategic Asset Liability and Liquidity Risk Management: Managing the Net Interest Margin Challenge*†

SWIFT, The Corn Exchange, 55 Mark Lane, EC3

3 OCTOBER *Sibos Outcomes*†

SWIFT, The Corn Exchange, 55 Mark Lane, EC3

14 OCTOBER *Smart Beta: Market Cap or Monkey?*†

Cass Business School, 106 Bunhill Row, EC1

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

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

Branch events

12 SEPTEMBER *The Breakup of the Defined Benefits Pension Scheme (joint event with ACCA)*

Republic of Ireland: Clarion Hotel IFSC, Excise Walk, Dublin

16 SEPTEMBER *Around the World in 180 Minutes*† (half-day event)

Bristol & Bath: Mercure Brigstow Hotel, 5-7 Welsh Back, Bristol

18 SEPTEMBER *FATCA Update*†

Guernsey: The Old Government House Hotel, St Ann's Place, St Peter Port, Guernsey

19 SEPTEMBER *Quiz Night*

Manchester & District: The Ape & Apple, 28 Dalton Street, Manchester

19 SEPTEMBER *Integrity at Work (held jointly with University of Edinburgh Business School)*†

Scotland: University of Edinburgh Business School, 29 Buccleuch Place, Edinburgh

20 SEPTEMBER *Bank of England Update (event with CIMA and ACCA)*†

Yorkshire: DoubleTree by Hilton Hotel, 2 Wharf Approach, Granary Wharf, Leeds

25 SEPTEMBER *Behaviouralising Finance: Maximising Anxiety-Adjusted Returns*†

Jersey: The Royal Yacht, Weighbridge, St Helier, Jersey

26 SEPTEMBER *Social Media for Business: The Things You Really Need to Know*

Birmingham & West Midlands: Brewin Dolphin, 9 Colmore Row, Birmingham

26 SEPTEMBER *Guernsey Investment Briefing: Megatrends*†

Guernsey: The Old Government House Hotel, St Ann's Place, St Peter Port, Guernsey

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

RDR ANNUAL CPD

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

Professional forums

Members' events



Dennis Hall

Peter Brown,
Chartered FCSI

The CISI's six professional forums are a key membership benefit. Covering the areas of compliance, corporate finance, financial technology, operations, risk and wealth management, these discussion groups will meet regularly in central London over the autumn period to debate current issues and hear presentations from industry speakers.

Events are generally held at midday with a light lunch provided and time to network. These sessions are free and open to Fellows, Members, Associates and Affiliate members of the Institute. Student members may attend one event of each forum annually.

Forthcoming events:

Compliance

25 September: *Don't Forget Financial Crime – Just Don't Become the Criminal!*
Speaker: Peter Brown, Chartered FCSI, Training Consultant, CCL City Training

27 November: *Around the FCA in 180 days – A Roundtable on Challenges Faced by the Regulator*
Chairman: David Moland, Chartered FCSI, Head of Compliance, Arbuthnot Latham

Corporate Finance

17 September: *ISDX, AIM, GXG – What Does it all Mean?*
Speakers: Simon Kiero-Watson, Head of Markets, GXG Markets; Paul Haddock, Head of Business Development and Sales, ISDX; Vivienne Cassley, Senior Manager, Primary Market Sales, ISDX; Marcus Stuttard, Head of AIM, London Stock Exchange (LSE); Ian-Patrick Lauder Business, Development Manager, LSE

26 November: *The Need for Better Corporate Governance – A Roundtable Event*
Chairman: Debbie Clarke, CF, Chartered MCSI, Corporate Finance Director, CV Capital

Financial Technology

19 September: *Cloud Computing – Has it Come of Age in Our Industry or is There a Long Way to Go?*
Speaker: TBC

Operations

18 October: *RDR and Platforms*
Speaker: Nick Emmins, Director, Business Development, Sales and Distribution, RBC Investor Services Trust

20 November: *Safe Custody and Nominees – Post RDR, Do You Know Everything You Should to Evidence Due Diligence?*
Speaker: TBC

Risk

12 September: *ESMA's Influence on the Buy-side Risk Agenda: What Risk Managers Need to Know*
Speaker: Robin Clark, European and Public Affairs Director, AXA Investment Managers, and other industry experts

21 November: *ILAAAs and Liquidity Risk*
Speaker: TBC

Wealth Management

2 October: *Philanthropy Hard Issues*
Speaker: TBC

5 November: *The Answer is RDR. Now, What Was YOUR Question?*

Speakers: Dennis Hall, Life Financial Planner, Yellowtail; Malcolm Murray, Head of Marketing, Transact; Nick Gibson, Chartered FCSI, Director of Compliance Solutions, Chase Cooper

For more information about forthcoming forum meetings, visit cisi.org/pf



Branch events

3 OCTOBER AIFMD: *Impact and Analysis*[†]
Scotland: TBC (Edinburgh)

3 OCTOBER AIFMD: *Impact and Analysis*[†]
Scotland: TBC (Glasgow)

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

16 OCTOBER *Emerging Markets Debt: Entering the Mainstream?*[†]
Bristol & Bath: Hilton Bath City Hotel, Bath

16 OCTOBER *Time for TEA: An Introduction to Tangible Ecological Assets*[†]
Guernsey: The Old Government House Hotel, St Ann's Place, St Peter Port, Guernsey

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

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

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

6 NOVEMBER *Allocating to High Yield / Corporate Credit*[†]
Birmingham & West Midlands: TBC

7 NOVEMBER *Where Next for the Economy?*[†]
Manchester & District: Barclays Wealth, 3 Hardman Street, Spinningfields, Manchester

12 NOVEMBER *Assessing Suitability and Remaining Ethical Whilst Avoiding Disputes*[†]
Yorkshire: DoubleTree by Hilton Hotel, 2 Wharf Approach, Granary Wharf, Leeds

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

14 NOVEMBER *Annual Dinner – Guest speaker: Nicholas Parsons*
Manchester & District: The Lowry Hotel, Salford

To book: cisi.org/events
region@cisi.org +44 20 7645 0652
Hardman street, Spinningfields, Manchester

SPECIAL GUEST

Corporate Finance Forum unveils dinner speaker



This year the CISI Corporate Finance Professional Forum committee has arranged for Jeremy Delmar-Morgan (pictured), the mastermind behind the success of both Teather & Greenwood and Hitchens, Harrison & Co, to speak at its annual dinner. Jeremy will share his tales, both in and out of the City.

Jeremy studied medicine at Cambridge and life as a doctor was laid out in front of him until Porsche offered him an appealing alternative as its official driver. Embracing the opportunity, Jeremy raced around the world until, following an accident, he decided to join the City. He progressed quickly in financial services, working his way up to Senior Partner for Teather &

Greenwood. By 1998, the company was public and Jeremy was promoted to Chief Executive before moving on to the role of Chairman of the Board in 2000. Jeremy went on to reproduce the same success for Hitchens, Harrison & Co, London's oldest established stockbroker, which was sold to Religare for £65m.

The dinner will take place from 7pm on 16 October at the Naval and Military Club, 4 St James' Square, London SW1Y 4JU. Tickets cost £85 (including a three-course meal and wine).

Don't miss your chance to hear Jeremy speak. To book your seat, email pfs@cisi.org or call +44 20 7645 0652.

Membership admissions and upgrades

MCSI	Killik	AXA	Henderson Rowe	Union Investment Management	Renaissance
Aberdeen	James Gatehouse	Lionel Desvernay	Alexander Fahie	Michael Halfhead	Richard Owusu
Hazel Guildler	Kinetic Partners	Azure	Keith Whitehead	United First Partners	Sarasin
ACPI	Tammy Li	Adam Locke	Henypc Capital Markets	Susan Barlow	Guy Davis
Pat Gartland	LCF Edmond de Rothschild	Barclays	Yan Ge	University of Greenwich	Smith & Williamson
Advisa	Christoph Ladanyi	Stephen Blampied	ING Barings	Renata Jaruseviciute	Catherine Griffiths
Paul Hamer	Momentum	Yolande Escher Dwivedi	Adrian Wyborn	University of Ulster	Piers Inkin
Alliance Capital	Robert Rhodes	Hannah Price	Investec	Marc Connolly	WH Ireland
Wali-Ul-Marooof Matin	NM Rothschild	Samantha Sharples	Laura Elsworth	Vestra Wealth	Craig Allison
AON Benfield	Robert Riley	BNP Paribas	Henry Simpson	Kelly Salmon	Chartered MCSI
Philip Hanson	NatWest	Vincent Andraud	J.P. Morgan	VSA Capital	Alexander Forbes
Azure Wealth	Steve Lloyd	Lucy Banks	Marion Zimmer	Edward James Hugo	Richard Buchanan
Massimo Scalabrini	Newton	Heather Bannister	Jefferies International	Walker Crips	Aria Capital Management
Bank Leumi	Charles Bueno De Mesquita	Keith Barker	Fiona MacLeod	Georgina Cockcroft	James Hindmarch
William Foster	Nomura	Jason Cameron	Morgan Stanley	Westhouse Securities	Barclays
Bank of Ceylon	Dilan Abeyratne	Daniel Doyle	Alicia Roberts-Brown	Lee Williams	Sean Gallagher
Prabath Shammika	Justin Nash	Gavin Richard James	NCB Capital	William Hill	Bestinvest
Ahangama Arachchige	Nsure	Duncan	Mohammed Omar Agha	Moses Ogutu	Sanjay Vaid
Bank of New York	Richard Cohen	Paul Facey	Layla Al Bassam	Worldspreads	BNP Paribas
John Paling	Quilter	Kaye Falconer	Nedbank	Christopher Roff	Rhona Gregg
Barclays	Antony Clark	Konstantinos Fatouros	Angela Davies	Xcap Securities	Brewin Dolphin
Aine Kelly	RBC Europe	Graeme Ferguson	Northern Trust	Richard Faithfull	Jason Downie
Callum Petras	Oliver Saiman	Matthias Huber	Philip Brennan	Zenith Bank	Jonathan Godfrey
Baynard Associates	Redmayne-Bentley	Adrian Manzaroli	Optiva Securities	Neil Hitchens	Jonathan Treen
Glen Cochrane	Charles Goodall	Jenny Rowe	Peter Comrie	Others	Charles Stanley
Beaufort Securities	Rowan Dartington	Robert Shaw	Christian St John-Dennis	Huzam Abdulla	Lee Enright
Thomas Sayers	Kevin Bowhay	Graham Smith	Pilling	John Phelan	Credera
BNP Paribas	Royal Bank of Scotland	Jennifer Suttie	Joseph Ashton	Golan Sakline	Charlotte Walford
Alex Preston	Christopher Feeney	Paul Watts	Quilter	Chartered FCSI	Financial Conduct Authority
Brewin Dolphin	Sanlam Group	Brewin Dolphin	Jonathan Raymond	1st Port Asset Management	Jamain Graveney
Stephanie Le Tissier	Simon Woodiwiss	Chris Hancock	Rathbones	Nicholas Palmer	Fiserv
Brown Shipley	Selftrade	Caledonian International	Mark Baker	ABN Amro	Obinna Emelogu
Drew Stafford	Anna Dabrowska	Christopher James Emmott	Robert Chapman	Stewart Appleby	HSBC
Charles Stanley	Seven	Ben Phelps	Rock	Accenture	Anthony Gifford
Paul Heath	Rachel Smallcalder	Channel Islands	Peter Murphy	Nicholas Tilson	Nick Mangan
Benjamin Burdett Money-Coutts	Standard Bank	Stock Exchange	Rowan Dartington	Barclays	IM
Coutts	Paul Groden	Laura Elder	Gary Hinde	Scott Farnetti	Amarjit Bansal
Bruce Champion	Richard Callin	Charles Stanley	Royal Bank of Canada	Rupert Forrest	LJ Athene
Paul Eva	Standard Chartered	Lee Downes	Sean Costello	Brewin Dolphin	Charles Hamilton
Credit Suisse	Anchalee Hongsukpant	CISI	Victoria Filatova	Robert Bramham	Lussinia
Matthew Haimes	David Swain	Robert Cronin	Samuel Le Breton	Harry Burnham	Bob White
Tomasz Lyjak	Abbas Walji	Citigroup	Neil MacDonald	Victoria Eastwood	McKenzie
Shaileen Morjaria	Standard Life	Gavin Braiden	Hannah Sauer	Steven Keppie	Andrew Magill
DPZ Synergy	Rachel Kerr	Computershare	Sanlam Group	Isabel Kwok	Midas
Kevin Goodbody	Talbot Underwriting	Gemma Powell	Richard Goldsmith	Sean Priestley	Simon Reeks
David Booler	Michael Hinton	Coutts	Seven	Luke Rundle	Ogier
Andrew John Durrant	Threesixty Services	Stuart Buchan	Jack Ellis Turner	Richard Umpleby	Nicola Le Brocq
White	Gretel Ann Cook	Nicola Spencer-Hopkins	Smith & Williamson	Lydia Wilmshurst	Quilter
Dial Partners	Towergate	Patricia Taylor	Robert Berkeley	Brooks Macdonald	Gaylynn Parks
Scott Young	James Keenan	Credit Suisse	Laura Charles	Lindsay Spencer	Helen Russell
Equitrade Capital	UBS	Brian Carty	Augustus Edwards	Butterfield Private Bank	Rathbones
Sajid Iqbal	Paul Alker	Andre Guimaraes	Hannah Sauer	George Holmes	Adam Jones
Festival of Life	James Horton	Matthew Wells	Sanlam Group	Cardale	Raymond James
Ejirooghene Ideme	Guy Newman	Custodian & Allied Insurance	Richard Goldsmith	Ian Wood	Peter Dunham
Finance Bank	Christopher Stephens	Akinyemi Sadiku	Seven	CQS	William Forsyth
Abbas Fahs	Vantage	deVere Group	Jack Ellis Turner	Kathryn Haswell	Redmayne-Bentley
Guaranty Trust Bank	Nigel Avey	Daniel Adams	Smith & Williamson	Credit Suisse	Paul Mcknight
Kelvin Bhiranee	Vestra Wealth	EFG Private Bank	Robert Berkeley	Adrian Starr	Rothschild
HSBC	Adam Pryce-Jones	Darren White	Laura Charles	Equiniti	Ratnakar Dalvi
Richard Bell	Others	Engage Mutual Assurance	Augustus Edwards	Tony Theobald	Sanlam
Russell Connor	Kay Broughton	Stephen Archer	Hannah Sauer	F&C	Ian Porter
Maria Elena Gatt Florida	Juan Pablo Cortes	Falcon Private Wealth	Robin Ellis	Alison O'Neill	Speirs & Jeffrey
Martin Hill	Mark Fail	Matthew Burrows	Jamie Kirkpatrick	HSBC	Claire Begley
Integrated Trust	Bryan Foss	Adrian Christofides	Emma Latham	Thomas Hills	Standard Bank
Oluwafemi Lawore	Sascha Gorgin	Farley & Thompson	Ania Mountford	Investec	Michael Smith
Investec	Beatrice Khine	Martin Poole	Standard Chartered	Anthony Kauntze	Standard Chartered
Adam Brewer	Patrick McMeekin	Financial Conduct Authority	Urvi Shah	James Brearley	Roger Clay
Wayne Harding	Anthony Nichol	Natalia Stevenson	Standard Life	Richard Allen	Christian Thurow
JO Hambro	ACSI	Fogwill Jones	Peter Silver	Jupiter	Standard Life
David Gibbs	Age Partnership	Fogwill Jones	SteelRock	William Luttrell-Hunt	Anthony Emmings
James Brearley	James Marshall	Colin Fogwill	Charles Watt	Killik	Wealth At Work
David Hannis	Aiken Kennedy	Jeffery Boyles	St James Property Management	Fabrizio Argiolas	Jonathan Wiseman
Ian Smith	Roger Kennedy	Gatehouse Bank	Chris Williams	Stephen Main	Others
Nigel Corrie	AON	Stuart Jarvis	Stocktrade	Kleinwort Benson	Jonathan Beckett
JM Finn	Anilkumar Mistry	Grainger	David Roe	Natasha Coleman	John Kut
Alexis Monoogian	Arcadia	Alison Beeston	Subsea 7	PSigma	Bradley Stratford
J.P. Morgan	Stephen Shelter	Guernsey Financial Services Commission	Satvinder Singh Basra	Geoffrey Cooper	
Roger Harrold	Arden Partners	David Farrelly	TD Waterhouse	Quilter	
Francis Pereira	Jamie Cameron		Alex Larkman	Ross Baldock	
Kames Capital	Arjent		Tees Financial	Michael Bull	
Kenneth Ward	Francis Aylward		Joshua Young		
Keymar Haslam			The Financial Corporation		
Martin Haslam			Harsha Jethmalani		
			Towry		
			Neil Gruncell		
			Triland Metals		
			Ittai Ben-Ze'ev		
			UniCredit		
			Jacek Musialski		

This list includes admissions and upgrades from 24 May to 30 June 2013



Graham at the 'How to Secure that Elusive First Non-Executive Director Role' event, an FCSI Masterclass that he recently spoke at. He is shown with fellow speaker Joëlle Warren, Executive Chairman, Warren Partners

New lease of life

Reinventing retirement is the aim of Graham Ross Russell FCSI(Hon), founder Chairman of the Securities Institute, the forerunner of the CISI.

Lora Benson reports

GRAHAM ROSS RUSSELL enjoyed a busy 45-year career in financial services, which included serving as Chairman of the Institute for eight years following its formation in 1992. Having dedicated his working life to the industry, he could be forgiven for wanting to put his feet up in retirement. But there is no chance of that happening. His view is that retirement should be the beginning of an exciting new chapter in life, rather than signalling the “start of a slide into senility”.

In collaboration with friends John Whatmore and Julian Nokes, with whom he plays tennis, Graham hatched the idea of a website to enable people to make the most of their time during retirement.

The result is RetirementReinvented.com and, six years after being launched, the site is going from strength to strength.

Graham, who has the distinction of being number one in the list of CISI members, says: “Retirees are now much younger, in fitness if not years, than formerly and have the prospect of maybe a third of their life before them. If they can take the opportunity to enjoy their retirement by keeping active and

interested, and making use of their skills and experience, they will benefit themselves and also the community.

“Not everyone in retirement is lucky enough to have a hobby or clear vision of what they intend to do. My intention for RetirementReinvented.com was that it should be a compendium of activities and interests that retirees can take up or develop. I was also keen for users to contribute to the site.”

RetirementReinvented.com is a compendium of activities and interests for retirees

The ‘Developing Interests’ section features information on more than 100 pursuits with links to useful websites for further details. These include everything from archaeology, attending parliamentary debates and further education to sailing, being a film extra, singing and yoga.

Other areas of RetirementReinvented.com cover travel, managing your finances, keeping

healthy and ‘giving back’ to the community, by working for a charity or a community overseas, for example, or by becoming a school governor.

However, the element that has proved most popular is a section that promotes paid and unpaid job opportunities.

Graham says: “We have responded to this by concentrating on two aspects: publishing an aggregated list of non-executive director roles that are available and encouraging retirees to use their skills and experience to mentor small companies. We also publish a list of ‘voluntary jobs of the month’.”

The site’s listing of non-executive director jobs is in the top three Google searches for that heading.

The site – developed on “the proverbial shoestring”, Graham says – very much relies on input from users to grow and develop, with visitors encouraged to add comments, questions and views on the subjects under discussion, raise new topics and contribute to a blogs section.

Graham’s distinguished career in the world of finance began in 1956, when he joined a two-year training programme with Morgan Grenfell and Barings. After studying for an MBA at Harvard Business School in the US, Graham returned to London to run the corporate finance side of John Prust (later Laurence Prust), broker to more than 60 listed companies.

He was a partner of that firm up to and following Big Bang in 1986 and during that period served on the Council of the Stock Exchange, where he was Deputy Chairman.

This led to him becoming Chairman of the Securities Institute, which evolved from the Stock Exchange. Graham and three other former Stock Exchange Council members launched the organisation from a back room in Throgmorton Street in the City of London.

Graham still puts his knowledge and skills to good use by working with small companies, supporting innovation and encouraging the growth of start-up and fledgling firms. ■

Further information: RetirementReinvented.com

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



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