

# REVIEW



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

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## New rules

*Regulations every firm should know about, p16*

## All at risk

*US equities are poised for failure, p11*



# Worth A MINT

Bitcoin is the new kid on the block, but will the virtual currency survive the test of time? *page 12*







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# REVIEW

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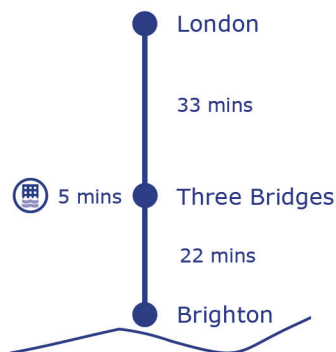
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## CISI OPINION

*The CISI has won approval for new school qualifications at a time when financial education has never been more necessary*

# School for thought

**THE CHALLENGE OF** high youth unemployment, together with employer dissatisfaction with low levels of numeracy, literacy and preparation for the world of work, has become a major preoccupation of many countries in the developed world, including the UK. This has been compounded by compulsory student loans for students in England, which have pushed up the costs of higher education for young people and forced them and their families to evaluate university education more critically.

A quiet revolution is taking place in the way in which young people are schooled. The financial services industry has an extraordinary opportunity to play a central part in this, and to demonstrate that the sector is committed to helping each young person be better equipped to face a financially sophisticated world, irrespective of whether they will work in the sector or be a customer.

What are the triggers of change that can transform the situation over the next few years? Firstly, the Government has finally mandated that, from September 2014, each child, from age 11, must be taught financial literacy and personal finance, through both the mathematics curriculum and the citizenship curriculum.

Through the generosity of the CISI's Educational Trust, the CISI will sponsor the development of learning materials for teachers and pupils, at no cost to schools using them, in association with pfg, the charity that lobbied the Government to listen to the compelling arguments for personal finance to be part of the mainstream curriculum. The materials will

be made available online and the CISI will have its profile as a serious sponsor of education raised immeasurably.

Secondly, the Government undertook a review of all of the vocational qualifications used by schools in the 14–19 age group and introduced more robust criteria that they have to meet. Subsequently, the Government picked up the proverbial scythe and removed more than 3,000 of them from being recognised.

There was a parallel opportunity to submit new qualifications for approval and an eagle-eyed former investment-banker turned teacher, Nick Seaward, Chartered FCSI,

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## *We are poised to make a difference to the lives of young people at school*

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spotted this opening. He led our development of a new qualification at GCSE level, aimed at 14–16-year-olds. We also applied for full recognition for our A-level equivalent, which is currently being piloted. To our delight, given that we have never had a track history of school work other than one small sixth-form qualification, we were successful on all counts. The CISI qualifications count as part of a new category of Applied General Qualifications, a coveted group of 87 qualifications across all sectors of the economy. The CISI is therefore poised, as at no other time in its history, to make

a difference through its corporate supporter firms and its individual members, to the lives of young people while they are still at school.

We will help them to prepare for managing their money, whether in university or work, provide them with the opportunity to take vocationally relevant qualifications while still at school, and link them to work experience. Our A-level qualification has also been given full recognition by the University Admissions Service, UCAS, with nearly 40 universities now seeking to work with us.

This is our call to arms; we need our firms and members to help us identify and work with schools, strengthening the links with young people, especially as the school leaving age rises to 18 from next year.

The aim is to help us not only to attract talent into our sector, but to play our part in ensuring that each young person is ready for work or higher education, with both a sound grasp of the fundamentals of business and finance and a confident start to managing their finances when this skill has never been more needed. ■

*Interested in supporting the CISI's education programme? Contact [educationdevelopment@cisi.org](mailto:educationdevelopment@cisi.org)*





## QUALIFICATIONS

### Irish diploma launches



Ulrich Kunz

The CISI has joined forces with Griffith College and Information Mosaic in Ireland to create a new Diploma in Investment Operations and Compliance.



Diarmuid Hegarty

The Diploma is designed to be a benchmark qualification for investment operations professionals in all sectors of the industry,

as well as those who are aspiring to work in a compliance role in the investor services sector.

Uniquely, together with this new academic qualification, successful participants will also achieve the CISI Investment Operations Certificate (IOC) qualification.

Griffith College is Ireland's largest private third-level institution, with campuses in Dublin, Cork and Limerick. Headquartered in Dublin, Information Mosaic is a specialist corporate actions and securities

processing software company working globally in capital markets.

CISI Director of Global Business Development Kevin Moore, Chartered MCSI, said: "We are very pleased to be working with both Griffith College and Information Mosaic in developing a qualification that is ultimately aimed at giving finance graduates a competitive edge in the jobs market.

"In addition, graduates of the diploma will be eligible to apply for Associate membership of the CISI."

Ulrich Kunz, CEO and Chairman of Information Mosaic, said: "This programme will certify that investment operations professionals have the foundation to manage these critical activities and, in doing so, help maintain Ireland's position as a leading investment funds centre."

Professor Diarmuid Hegarty, President of Griffith College, Ireland, said the Diploma would provide participants with a "practical knowledge of investment instruments as well as operational functions, processes and relationships within the investment administration sector".

## APPOINTMENTS

### CISI boost for apprenticeships



Max Reynolds

The CISI has recruited a senior adviser, Max Reynolds FCIPD, to help drive forward its work on apprenticeships.

Max has spent many years working on the strategic deployment and development of accredited learning, including apprenticeships, most recently at BT.

Traditionally, apprenticeships have been associated with blue-collar jobs, but there has been a surge in professional options in recent years, particularly in accountancy. The CISI's Investment Operations Certificate and Investment Advice Diploma are both available to take as part of a financial services apprenticeship and the Institute plans to get involved much more heavily.

CISI Managing Director Ruth Martin said: "Apprenticeships are now a viable option for young people who may not be able to afford, or to be able to justify, the cost of going to university, yet would still like to work in a professional role. Students obtain hands-on experience and a qualification; firms gain loyal employees who are trained just the way they like, and there are generous government grants available.

"We are delighted that Max, with such expertise in apprenticeships from other professional services, will be joining us to assist in this important development."

For further information, see [cisi.org/apprenticeships](http://cisi.org/apprenticeships)

## ONLINE

### Log on for a risk controllers' webcast

12 February 2014 is the key date when trade reporting in the derivatives markets becomes mandatory under European Market Infrastructure Regulation (EMIR).

The EU regulation on derivatives, central counterparties and trade repositories introduces new requirements to improve transparency and reduce the risks associated with the derivatives market. EMIR also establishes common organisational, conduct of business and prudential standards for central counterparties and trade repositories (TRs).

The European Securities and Markets Authority (ESMA) recently approved the registration of the first four trade repositories under EMIR. The registered TRs cover all asset classes underlying derivatives, including commodities, credit, foreign exchange and equities.

The CISI's first webcast for 2014 will feature two distinguished panellists from this increasingly

important world, where EMIR and its American cousin Dodd-Frank are following the G20 instructions in Pittsburgh to beef up financial markets safeguards - but to what end and at what cost?

Peter Norman is a renowned guru on the post-trade space, with two recent and well-regarded books to his name, including *The Risk Controllers: Central Counterparty Clearing in Globalised Financial Markets*.

He will be joined by Richard Young, Head of Regulatory Affairs at SWIFT, which, with a membership of more than 10,000 financial institutions and corporations in 212 countries, is the world's biggest financial community.

The webcast, which members can access from their computers, and most smartphones and tablets, will run from 11am-12pm on 19 February 2014.

For more information and to book your place, please visit [cisi.org/events](http://cisi.org/events)

## FEATURE IDEAS

### Promoting pensions

What can be done to make saving into a pension more attractive?

That question will be addressed in a feature in the March edition of the *S&I* - and we want to include your suggestions on steps to encourage more people to make a long-term investment in a pension.

Email your ideas to CISI Communications Editor Richard Mitchell at [richard.mitchell@cisi.org](mailto:richard.mitchell@cisi.org)



# £175,826

The average house price in Britain, according to Nationwide. For more on the sustainability of property prices, turn to page 20



## SCHOLARSHIP

# Don't miss bursary opportunity

**Time is** running out to apply for a new bursary announced by the CISI – the Hoare Nairne Scholarship.

The bursary will be available for one UK resident hoping to study towards the CISI flagship premier qualification, the Masters in Wealth Management, annually.

To be considered for the 2014-15 scholarship, candidates must submit a 1,500-word essay by **24 February 2014** on the topic 'Has the Retail Distribution Review (RDR) helped the saver?'

Shortlisted candidates will be invited to an interview with trustees of the CISI Educational Trust at the CISI offices in London during the week starting 10 March 2014. It is hoped that the winner will be announced at the CISI Annual Awards Ceremony on 20 March.

The chosen winner will save on the costs of tuition and exam entry fees for the three-unit CISI Masters in Wealth Management, worth around £2,500.

The units are Financial Markets, Portfolio Construction Theory and Applied Wealth Management, and are normally taken over 18 months. Candidates must hold an appropriate benchmark qualification in order to enrol for the programme. A full list of accepted qualifications can be found at [cisi.org/mwm](http://cisi.org/mwm)

- The CISI Masters in Wealth Management is a postgraduate-level specialist qualification and covers the breadth of knowledge needed to provide a high-quality service to clients. It comprises three, four-hour narrative exams.

 Please submit entries to [MastersScholarship@cisi.org](mailto:MastersScholarship@cisi.org)

## MEMBER SURVEY

# Chancellor must tackle national debt

**Reducing the** UK's national debt should be Chancellor George Osborne's priority in 2014, according to a survey carried out by the CISI. Of 490 respondents, 62% believe that putting the country's finances into better shape is the number-one task for the Chancellor.

Of three other options offered in the online survey, 21% feel that cutting taxes is his most important job, 12% want him to increase public spending generally, while 5% favour more money being invested by the Government in pensions and the NHS.

One contributor commented: "It is essential for the long-term health of the economy to reduce the national debt. This can only happen once the deficit has been eliminated. We are still a long way away from doing that."

Another said: "It's time for the UK to move back to being a capitalist economy with small government, low benefits and low taxes."

 To take part in the latest CISI survey, visit [cisi.org](http://cisi.org)

## FEEDBACK

### Your say

*The S&IR is your CISI membership magazine and we want to hear your views. To get in touch, email [richard.mitchell@cisi.org](mailto:richard.mitchell@cisi.org), leave a comment at [cisi.org/sireview](http://cisi.org/sireview) or follow @CISI on Twitter.*

Dear S&IR,

'In the line of fire', the City View CISI opinion article in January's S&IR, was a very interesting article, but I felt it left out quite a lot.

While stating the UK position on bank fines concisely, it should have mentioned that the position in the US is quite different, with truly massive fines on a corporate and personal basis being made without the long-winded legal process of a formal trial.

Indeed, it could be said that the accusation by the regulators in America is as good as a guilty verdict, since almost all recent cases have been along the lines of '\$x billion paid out without any liability being accepted'. Or maybe the institutions have really guilty consciences!

One could reasonably ask why, for example, J.P. Morgan would recently agree to voluntarily give up billions of dollars from its profits before it was found guilty of an offence.

The Financial Conduct Authority (and, more to the point, the Serious Fraud Office) need to be far more aggressive in targeting board members, including non-executive directors, for their failings in oversight. It cannot be justice for the lower echelons to be punished, when the top layers of management (who continually bleat that their inflated salaries/bonuses are for taking responsibility for the whole enterprise) rarely, if ever, have any sanctions levied against them.

A few very high-profile cases of poor top-level management (ie, ignorance of what was actually happening) would work wonders in the less conservative areas of the UK financial sector, and would cause a seismic change of attitude among the cosy circle of non-executive directors!

However, having been in this industry since the 1972-3 oil crisis, secondary banking scandal (the Bank of England Lifeboat) and all the issues since then, I have little confidence that there will be any significant change, notwithstanding the newly introduced attestation.

*Jonathan S. Simons, Chartered FCSI, Senior Investment Manager, London*

Dear S&IR,

Ever since Charlotte Clare's birth on 21 March 2013, she has shown a keen interest in finance, preferring her piggy bank and abacus to other toys. However, as pictured, she found a recent edition of the S&IR, which included a feature on the impact of the Retail Distribution Review, a little bit harder to digest!

She appears to be following in her family's footsteps. Her mother, Nicola Strosnider ACSI, is Middle Office Supervisor at S&T Asset Management and is in the process of obtaining her CISI Investment Advice Diploma. Charlotte's grandfather, Christopher Saunders OBE, Chartered FCSI, has been in the stockbroking business for 43 years and is the Founding Senior Partner of S&T Asset Management. Additionally, her uncle, Richard Saunders CFA, is Head of Equities at the Church Commissioners.

Charlotte intends to spend her toddler years running around the S&T office in Greater Manchester improving her investment knowledge, while providing the team with an opportunity to improve their skills in the development of others!



*Simon Chatterton, Chartered FCSI, Partner, S&T Asset Management*



## RECOGNITION

# Honorary OBE awarded to Al Zayani



Khalid Al Zayani, receives his Honorary OBE from HRH the Duke of York

Khalid Al Zayani, President of the CISI's Bahrain Advisory Council, has been presented with an Honorary OBE by HRH the Duke of York at the UK Ambassador's Residence in Manama,

the capital city. The award is for services to UK business overseas and UK/Bahraini relations.

British Ambassador Iain Lindsay congratulated Mr Al Zayani on receiving his honour, saying: "Khalid has been a passionate supporter of the UK/Bahrain relationship, particularly in the commercial field. As Chairman of the Bahrain British Business Forum since 2009 and also in his CISI role, he has devoted a considerable amount of time and effort to promoting stronger business ties.

"It is fitting that the honour should be presented during GREAT British Week given the leading role Khalid has played, as Chairman of the Steering Group, in organising one of the biggest GREAT British events in the region and one which has attracted so much interest and enthusiasm across Bahrain. I offer him my sincere congratulations."

## ACADEMIC PAPERS

## Wanted: journal contributions

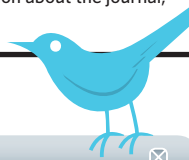
CISI members are being invited to contribute to a new quarterly academic journal that will be published in the *S&I*.

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

Members can submit to the CISI for

consideration original papers of between 1,500 and 3,000 words in length, accompanied by an abstract of 80 to 150 words.

For further information about the journal, see [cisi.org/academic](http://cisi.org/academic)



## ONLINE

## BEST OF THE BLOGS

### 1 [tinyurl.com/obz4rhf](http://tinyurl.com/obz4rhf)

Few academics are more pessimistic about the future of Bitcoin than Paul Krugman. Known for his blog on the *New York Times*, Krugman's insights on the 'currency' are written for the general public, yet have plenty of academic grit. His main point in this article is that Bitcoin fails in some fundamental areas: "To be successful, money must be both a medium of exchange and a reasonably stable store of value. And it remains completely unclear why Bitcoin should be a stable store of value."

### 2 [tinyurl.com/lj9kj9j](http://tinyurl.com/lj9kj9j)

For an amusing overview of the hysteria surrounding Bitcoin, read this list of predictions for 2014. Most entertaining is that Satoshi Nakamoto - the supposed inventor of Bitcoin - will be named *Time* magazine's 'Person of the Year 2014'. Given Nakamoto is likely to be a pseudonym for an anonymous group of hackers, *Time* would have some trouble handing over its award. Read prediction nine with caution: yes, there may be a rational explanation why Bitcoin may rise to \$5,000 per unit, but that doesn't mean it will happen.

### 3 [tinyurl.com/khnn6xr](http://tinyurl.com/khnn6xr)

Whether or not Bitcoin will turn into the biggest joke of 2014 (or rouse a mere chuckle), some are taking it seriously. The Motherboard blog on Vice.com goes to great lengths analysing why a hedge fund in San Francisco has been searching for a 'junior Bitcoin execution trader'. Arguing that Wall Street's growing interest in Bitcoin is due to the fact that it is where the money is, the blog continues: "Professional positions like this within established firms give Bitcoin an air of normality. When Wall Street gets involved, Bitcoin is no longer just the hobby of hackers or the movement of ideologues."

#### On Twitter...

To track Bitcoin's every move, follow @BitCoinReporter, whose tweets and links offer access to thoughts and arguments from all sides of the Bitcoin debate.

For more on the virtual currency, read 'Bits of bother' on page 12.

#### Do you have a blog recommendation?

Send it to the Editor:

[rob.haynes@wardour.co.uk](mailto:rob.haynes@wardour.co.uk)

## PROFESSIONAL REFRESHER

## Supervisory elearning module

Based on a popular one-day workshop, T&C Supervision Essentials is a new CISI Professional Refresher elearning module aimed at those who supervise investment advisers, administration and support staff, and other key professionals. It explores the nature of the supervisor's leadership role in order to understand how supervision contributes to business success and to identify the key activities undertaken.

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

Visit [cisi.org/refresher](http://cisi.org/refresher) for more information



## SELECT BENEFITS

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# BACK STORY

*Kerry Anyim, Head of Operational Risk, Schroders*

**Having recently won** the CISI's inaugural annual Risk Professional Award, Kerry Anyim is riding high. "I have only been a member of the CISI since last year, and initially I was flattered to even be nominated," she says. "Winning the award itself has been such a positive experience."

Her evident modesty does little to mask a considerable list of successes and responsibilities in her current role as Head of Operational Risk at Schroders in London, where she oversees a team of five. The department's work encompasses risk assessments (including departments, processes, products, and complex clients), managing the group's policy framework and looking at significant risk events, be it a profit or a loss.

Perhaps unsurprisingly, Kerry's grounding in these skills was at the Financial Services Authority (FSA). Having graduated from Nottingham University with a degree in economics in 2002, she won a place on the

regulator's graduate trainee scheme. It was there that she gained insights into banking, investment banking, asset management and insurance, and developed her passion for operational risk. "I learned so much on the graduate scheme at the FSA," she says with considerable enthusiasm. "It really shaped my career."

Part of that shaping came in 2005 when she was seconded to Newton

## "I learned so much on the graduate scheme at the FSA"

Investment Management, a small asset manager based in the City of London. "Getting to work closely with a wealth manager really inspired me and opened my eyes to that side of financial services." The experience prompted her to move into the commercial world and, following a brief stint back at the FSA, she joined Schroders in 2006.

Much of Kerry's team's work is qualitative and involves a significant degree of interaction and dialogue with colleagues across the business. "When I recruit for a role, I look for someone who is strong mathematically, of course," she explains. "It's more important, though, that the person has the ability to interact well with others and to deliver important messages."

Someone in Kerry's position requires an attitude that encourages the sharing of information, and this is something she achieves operationally and personally. In terms of the former, she established an Operational Risk Forum within Schroders with a view to formally providing information to key staff members about aspects of risk.

On a personal level, she says that being approachable and cheerful with colleagues means they are more likely to give her a heads up on issues that need addressing quickly, making it that bit easier to do her job well.



Kerry Anyim

Head of Operational Risk, Schroders

Do you have a back-office story?

[rob.haynes@wardour.co.uk](mailto:rob.haynes@wardour.co.uk)

### BRANCH NEWS

## New Scotland President

**Chris Clark MCSI** has been appointed President of the CISI's Scotland branch.

A member of the Investment Group Relationships team at Standard Life, Chris was previously based in the firm's Internal Audit department for six years. Prior to this, he worked for Scottish Widows in Compliance and for Deloitte in Assurance and Advisory, specialising in financial services.

Outside of work, Chris enjoys running, classic sports cars and travel.

He said: "I'm proud to have become Scottish President and am keen to build on the successes of the Scottish Committee. We're looking forward to continuing to offer an exciting range of events for our members, aiding them in their professional development and presenting them with opportunities to grow their network of contacts in the industry."



*Chris Clark MCSI, left, with Stephen Barclay, Chartered MCSI, his predecessor as Scotland branch President*

### ENFORCEMENT

## Compliance Forum helps financial regulator



*Julian Sampson Chartered FCSI*

**The Financial Conduct Authority (FCA)** has called on the expertise of the CISI Compliance Forum to help increase the effectiveness of the regulator's Enforcement division.

The FCA asked the Forum for feedback on its disciplinary notices – specifically whether firms actually read them and if they took any action as a result. It also requested suggestions on how FCA notices could be developed.

Five members of the Forum, led by its Chairman Julian Sampson, Chartered FCSI, met with representatives of the FCA Enforcement division. CISI Senior Adviser Christopher Bond, Chartered MCSI was also involved in the discussion.

Julian Sampson said: "The FCA team listened with interest and some of our suggestions were positively received – such as the introduction of an Enforcement Newsletter."

The CISI representatives also pointed out to the FCA that reading disciplinary notices is one of many competing priorities that compliance staff have to juggle – assuming that a firm has a dedicated compliance officer in the first place.

Julian added: "It was an ideal opportunity for the Compliance Forum Committee to give its direct practical experience of what 'works', and to provide our members a direct channel into FCA decision-making."

"The FCA welcomed our input and we hope to continue this dialogue."



**Louis Gave**  
CIO, Gavekal Capital,  
and Co-Manager of  
the Gavekal Asian  
Opportunities Fund



## Ask the experts...

### WHAT IS ABENOMICS?

Abenomics is the nickname for Prime Minister Shinzo Abe's plan to bring Japan out of a long period of deflation. Launched in December 2012 after his election, Abe's strategy has 'three arrows': i) monetary policy, ii) fiscal policy and iii) structural reform.

To most foreign investors, the latter two arrows represent the painful adjustments to come. Specifically, if Japan can improve its tax collection through structural reforms, then it will visibly improve its fiscal situation. A Trans-Pacific Partnership free-trade deal could perhaps be a Trojan horse that would allow Abe to take on such powerhouses as the domestic rice lobby, or give him an opportunity to implement productivity-enhancing corporate taxes to offset a rising consumption tax.

Abe is also doling out Olympic-related construction contracts, brow-beating Japanese corporates into increasing wages (to spread the feeling of national wealth) and working on cutting agricultural subsidies.

### Slings and arrows

That said, Abe's first motivation is to help Japan re-militarise and stand on its own two feet in an increasingly complex Asian geo-strategic situation – and the above may not prove sufficient to achieve this. Undeniably, he will continue to get help from the Bank of Japan, which shows precious few signs of wanting to stop trading 0% paper (bank notes) for 0.6% paper (10-year Japanese government bonds).

But that may also not be enough, for Abe knows that, in recent years, the fortunes of Japanese leaders have been inexorably tied to those of the stock market.

Prime ministers who served at a time of equity bull markets, such as Junichiro Koizumi or Keizo Obuchi, enjoyed strong approval ratings. In turn, these popularity polls allowed the usually obstructionist Japanese

civil service, as well as their own unruly party, to be pressured into toeing the policy line (whether on bank reform or post office privatisation).

Hence, if Abe wants to be successful in reforming and strengthening Japan, then Japanese equity markets need to continue moving higher. It is through rising equity prices that Abenomics is working. From there, Abe-san can push through necessary reforms (including those to Japan's armed forces).

It is in this context that one must look at a government savings programme – the Nippon Individual Savings Account (NISA) – which started in early January and now allows individuals to buy 1m yen (about \$10,000) a year of risk assets, which is exempt from taxes on dividends and capital gains for five years. NISA covers equities, mutual funds, real estate trusts and exchange-traded funds, but not Japanese government bonds, gold or money market funds. Recent estimates from Nomura say the scheme could encourage as much as 68tn yen (or roughly \$680bn!) to move from bank deposits to equities over the next five years.

If anything, these estimates may be too conservative. After all, Japanese households are currently sitting on more than 800tn yen in deposits, earning 0% at the bank, even as the yen is moving lower and equities higher. Throw in a tax incentive for investors, an incentive for banks to earn higher fees on investment trust products, and Abe should continue being successful in his attempt to goose the market. After all, if tax-free NISA allocations of 1m yen aren't enough to drive equities higher, who is to say that the amount won't be raised to 2m?

Which is why the Japanese equity bull market may have only just started.

Do you have a question about anything from tax to virtual trading? [richard.mitchell@cisi.org](mailto:richard.mitchell@cisi.org)

### SOCIAL EVENTS

## Future dinner dates



Willie Thorne

A feast of CISI branch annual dinners are on the menu in the coming months.

The Northern Ireland dinner on 27 February at Queen's University Belfast, will feature as guest speaker Sammy Wilson, MP for East Antrim. On 5 March the East Midlands & Lincoln branch will host its dinner at Devonshire Place, Leicester. Snooker player Willie Thorne will be guest speaker. Then, on 7 March, the Jersey branch will stage its event at L'Horizon Hotel & Spa, St Brelade, with comedian Patrick Monahan providing entertainment. There will be many creature comforts at the Bristol & Bath dinner on 15 May. The venue will be Bristol Zoo Gardens, with the drinks reception being staged in the aquarium and reptile house. On 22 May, guests at the Liverpool & North West branch dinner will include members of the CISI Board of Directors. The event will take place at the Crowne Plaza in Liverpool.

For information and to reserve a place, see [cisi.org/events](http://cisi.org/events), email [region@cisi.org](mailto:region@cisi.org) or call +44 20 7645 0652

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### QUICK QUIZ

## Test your industry knowledge



Illustration: Cameron Law

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Answers are on page 29.

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Q1. Which ONE of the following bodies promotes international co-operation and efforts to develop a common approach to regulatory issues across global markets?

- A) World Bank B) Financial Action Task Force C) International Organisation of Securities Commissions D) International Monetary Fund

Q2. Which of the following protection policies combines an investment plan with a decreasing term assurance policy?

- A) Convertible term assurance B) With profits endowment C) Gift inter-vivos D) Low-cost endowment

Q3. What amount of capital gain may be generated in the 2013-14 tax year without liability to tax?

- A) £10,100 B) £11,520 C) £10,900 D) £9,440

Q4. The operating profit that appears in a company's Income Statement is best described as:

- A) Gross profit less distribution costs and administrative expenses B) Turnover minus the cost of sales C) Profit before taxation after deduction of all finance costs D) Net profit after taxation

# Risk returns

As equities climb ever higher, are the US markets – and the economy more generally – poised for failure?

**THE CONSENSUS IN** markets is almost unnerving. The Federal Reserve's big achievement, in announcing plans to start scaling back its emergency bond buying in January, was to set up a welcoming investor psychology.

No matter that the central bank prop that has underpinned much of the powerful rally in stock markets since 2009 is to be gradually withdrawn. The markets, for now, are betting that real, actual earnings growth from a recovering US economy will power further gains.

You can neatly summarise the benign outlook emanating from Wall Street and the City as follows: stocks will churn slowly higher, bond prices will decline on expectations of higher interest rates, jobs growth and inflation will rise and the Fed will 'taper' quantitative easing only slowly.

And it's precisely because investors have locked on to this widely held consensus view, says Nicholas Colas, Chief Market Strategist at ConvergEx, that it's worth considering for a minute what could go wrong.

He draws a striking parallel with 1914, when the *New York Times* wrote on 31 January that year: "Whatever may be said of the stock market, there can be no doubt that the investment situation afforded grounds for a most hopeful view of the outlook." Just six months later, the city's stock exchange closed for more than four months.

Nobody is suggesting a third world war is imminent – just that it can pay to factor in the unexpected. And, judging by Colas' list, there can be such a thing as too much good news.

The US economy could grow

faster than expected, and more than the economists' forecast of 3% for 2014.

The risk here is that faster growth could drive inflation higher and compel the Fed to withdraw emergency stimulus more quickly, bringing forward the point at which interest rates could actually start to rise. Certainly, were US growth to take off, markets' expectations of future inflation would jump and traders would begin second-guessing the Fed. Volatility would very likely return to the bond market.

We had a taste of this last summer, when US bond yields, which move inversely to prices, rose sharply on the back of premature hints from the Fed of a withdrawal of monetary easing. The central bank later had to row back.

The reason nobody wants to see sharp swings in the bond market is because US Treasury yields are the benchmark against which much household and corporate debt is priced. Were those benchmark rates to rise too high too quickly, there would be unwelcome repercussions for the wider economy. The recovery could be killed.

The pressure point would probably come at the so-called short end of the bond market, Treasury bonds with two- to five-year durations. This is what happened in the 1994 bond market rout. A sharp jump in two-year yields would propel the dollar sharply higher (the US currency closely tracks short-term US borrowing costs). A big gain in the dollar would be a test for vulnerable emerging market economies.

That risk in the bond market also weighs on equity market prospects. "It is bond market

“ The risk in the bond market weighs on equity market prospects ”

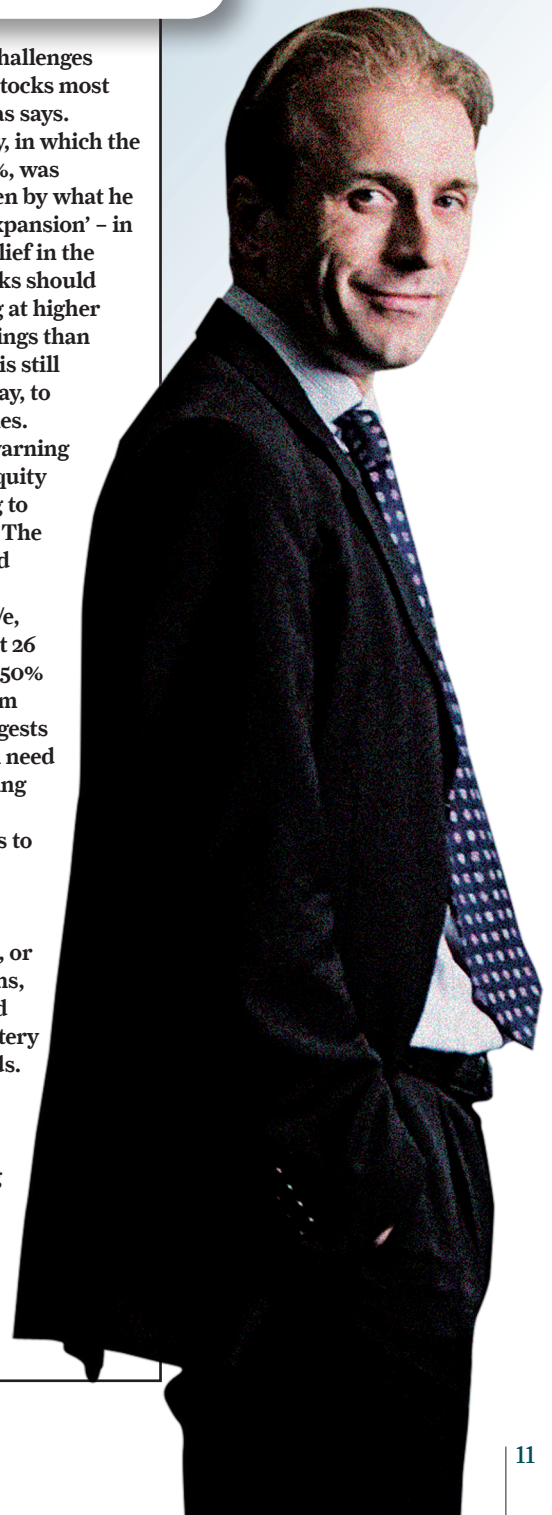
volatility which challenges the bull case for stocks most profoundly," Colas says.

Last year's rally, in which the S&P 500 rose 30%, was in large part driven by what he calls 'valuation expansion' – in other words, a belief in the markets that stocks should have been trading at higher multiples of earnings than they were. There is still scope to return, say, to 1990s-era multiples.

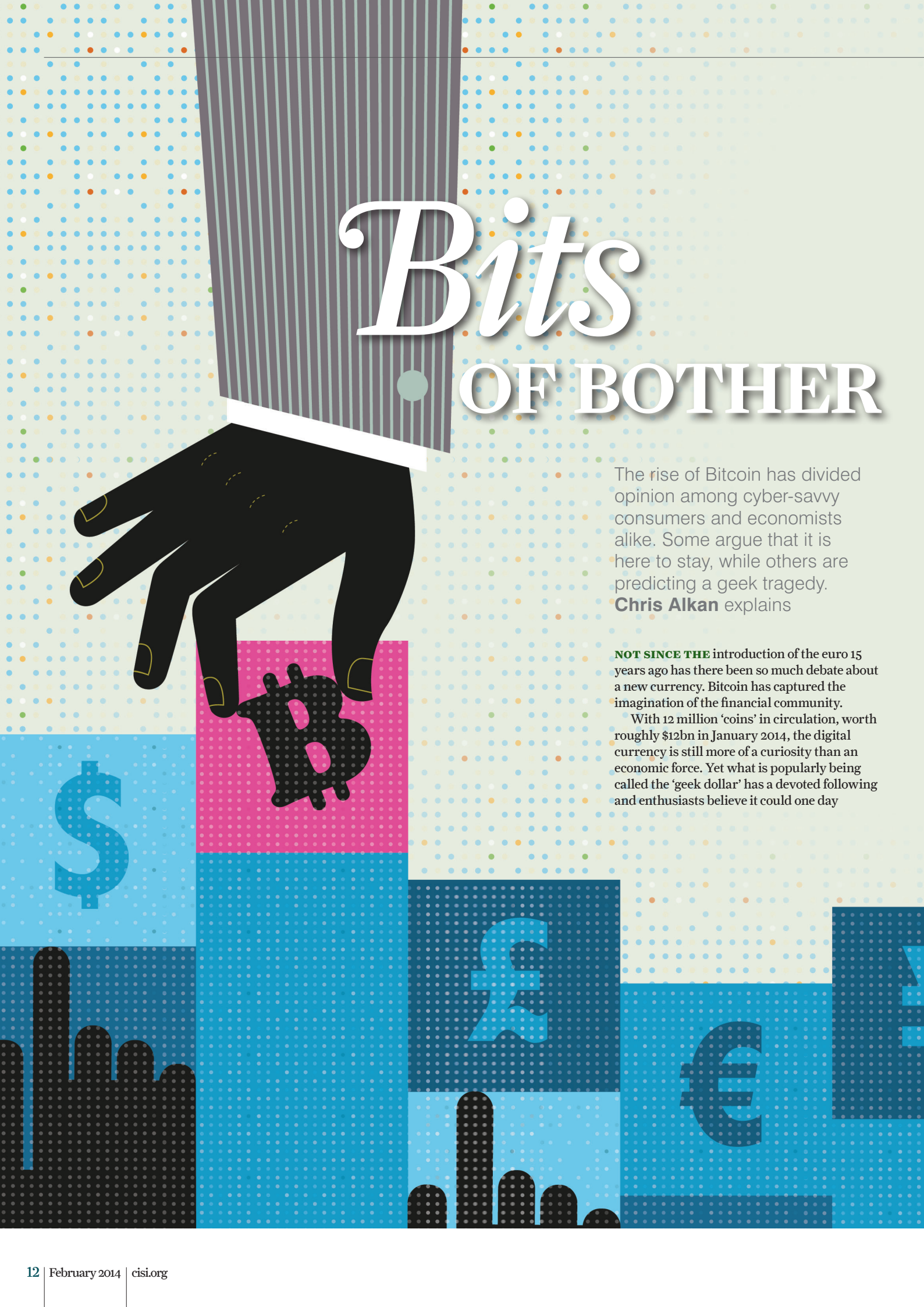
But there are warning signals that the equity market is starting to look overcooked. The cyclically adjusted price-to-earnings ratio, or Shiller p/e, is trading at about 26 times, more than 50% above its long-term average. This suggests that earnings will need to continue growing for current stock market valuations to be sustained.

That's not impossible. But with US stocks at, or near, all-time highs, don't be surprised if investors get jittery as the year unfolds. As Colas puts it, this "leaves very little gas in the tank if something goes awry". ■

*Christopher Adams is the Financial Times' markets editor*





A hand in a striped suit sleeve is shown holding a Bitcoin symbol. The background features a bar chart with various currency symbols: a dollar sign (\$) on a light blue bar, a Bitcoin symbol on a pink bar, a pound sign (£) on a dark blue bar, and a euro sign (€) on a medium blue bar. The entire scene is set against a background of a light green and white dotted pattern.

# Bits OF BOTHER

The rise of Bitcoin has divided opinion among cyber-savvy consumers and economists alike. Some argue that it is here to stay, while others are predicting a geek tragedy.

**Chris Alkan** explains

**NOT SINCE THE** introduction of the euro 15 years ago has there been so much debate about a new currency. Bitcoin has captured the imagination of the financial community.

With 12 million 'coins' in circulation, worth roughly \$12bn in January 2014, the digital currency is still more of a curiosity than an economic force. Yet what is popularly being called the 'geek dollar' has a devoted following and enthusiasts believe it could one day

rival conventional currencies. A growing number of businesses – including online gaming company Zynga and net retailer Overstock.com – are now willing to accept Bitcoin. Ben Bernanke, in his last months as Federal Reserve Chairman, declared that it “may have long-term promise” and the Department of Financial Services in New York has raised the prospect of regulating Bitcoin. Germany’s Ministry of Finance has formally recognised the Bitcoin as a valid “unit of account for transactions”.

“This has been a bold technological experiment,” says Mark Calabria, a former aide to the US Senate Committee on Banking, Housing and Urban Affairs and now a fellow at the Cato Institute in Washington. “Bitcoin is still in its infancy and could develop into something far more important.”

However, economists are asking whether the currency could ever really challenge the likes of the US dollar, and whether Bitcoin – which has risen in value 50-fold during the past year – is destined to collapse in value.

#### **In the beginning...**

An anonymous programmer or group going by the name of Satoshi Nakamoto created Bitcoin in 2008. That fact may be significant. “The currency came into being around the time that the Federal Reserve was engaged in quantitative easing – which many libertarians feared would lead to hyper-inflation and the debasing of the dollar,” says Justin Wolfers, a senior fellow at the Brookings Institution in Washington. “The currency’s core fan base has been [composed of] opponents of central banking.”

Part of the appeal of Bitcoin for such people is that there is a strictly limited supply. People

## *Hostile government responses*

A Bitcoin backlash may already have begun. In 2013, China banned financial institutions from handling transactions in the virtual currency and the People’s Bank of China declared that it was a currency without “real meaning”. Last December, this prohibition was extended to Chinese-based payment providers that service the Shanghai-based BTC China, the world’s largest Bitcoin exchange by volume.

In addition, the European Banking Authority has warned that “no specific regulatory

protections exist in the EU that would protect consumers from financial losses if a platform that exchanges or holds virtual currencies fails or goes out of business”. In December, the Norwegian Government said it would be placing a tax on the currency, which will be treated as an asset.

Justin Wolfers of the Brookings Institution says: “It would be naïve to assume that Bitcoins will be allowed to develop without governments intervening.”

‘mine’ Bitcoins by solving cryptographic puzzles. When they’re successful, they are rewarded with a ‘block’ of new Bitcoins. The number of Bitcoins per block will decrease by 50% about every four years, capping the number of Bitcoins at 21 million.

This approach makes Bitcoin reminiscent of gold-based currencies, where supply was restricted by the ability of miners to extract

## *A cap on the number of Bitcoins means the risk of chronic deflation*

gold from the ground, but Bitcoin is more rigid than that. This is another reason to doubt that it could ever be accepted as a fully fledged currency, Wolfers argues. “You run the risk of chronic deflation when you have such an absolute cap on how much currency can be

generated,” he says. “If a demand for products and services expands, but the money supply does not, you can stifle economic growth.”

#### **Economists’ concerns**

The fact that inflation of traditional currencies has remained subdued – despite massive monetary stimulus in the United States and Britain – also casts doubt on the need for an alternative. Advocates of the status quo point out that there are certain democratic advantages to the currency system of monetary policy. The Federal Reserve and the Bank of England, though independent, are overseen by their representative governments. “I would rather have Janet Yellen [the new Chair of the Federal Reserve] in control than a group of anonymous computer geeks,” Wolfers observes.

So far, however, monetary policy controlled by computer whizzes seems like a distant prospect. To date, Bitcoin has failed to





## Bitcoin: stranger than fiction...

- In May 2010, Lazlo Hanyecz paid 10,000 Bitcoins for two pizzas from a restaurant in Jacksonville, Florida. At the time, that represented about \$30. Calculated at January 2014 rates, that's now more than \$8m.
- In December 2013, a car dealership in Newport Beach, California, sold a Tesla Model S electric car for 91.4 Bitcoins (about \$103,000).
- The world's first Bitcoin ATM was installed in Vancouver, Canada, in October 2013. Transactions have totalled \$942,000 so far, according to the company. A second ATM was installed in Hong Kong in January 2014.
- Elliptic Vault, a British company, has launched

a Bitcoin storage service that insures owners against cyber-attacks and accidental loss. It is underwritten by Lloyd's. Insurance payouts will be calculated using the Bitcoin-to-US-dollar exchange rate at the time of the claim.

- Bitcoin has spurred the creation of a raft of new virtual currencies. There are an estimated 70 so far, with a total market valuation of about \$5bn.
- In January 2014, the *Financial Times* reported that HM Revenue & Customs is reviewing the 20% VAT on the purchase of Bitcoins. This follows concerns among traders that the tax is hurting their competitiveness.

serve any of the main functions expected of a currency – including as a medium of exchange, a store of value or a unit of account.

First, the virtual currency is far from being accepted as legal tender, acceptable to all shops and individuals as payment. Only a handful of retailers are currently willing to accept it, although the list is growing.

Secondly, its value can fluctuate wildly, rising or falling by as much as 20% in a day.

“This is a serious limitation as a medium of payment,” says François Velde, Senior Economist at the Chicago Federal Reserve Bank. “A successful currency is predictable and stable. Without that quality, sellers will be reluctant to accept it.”

Similarly, these gyrations make the currency a poor unit of account.

Finally, exchanges of Bitcoin are far slower than conventional cash or bank transactions. “At a minimum, one must wait ten minutes and for large amounts it is customary to wait for an hour,” says Velde. “The reason for this delay is the security systems that are intended to ensure that a Bitcoin is not

being spent twice. In this respect, Bitcoin is less efficient than existing currencies and payment infrastructures.”

In addition, there is concern that Bitcoins may at some point collapse in value. “It is not hard to see the risk of a bubble here,” says Calabria. The value of one Bitcoin started 2013

## Gyrations in the value of Bitcoin make it a poor unit of account

at \$13, but began 2014 at \$1,000. In contrast, central banks have a strong incentive to prevent the value of fiat currencies from collapsing, giving them at least some stability in most cases.

“There is no such authority standing behind Bitcoin and thus no limit on how far it could



fall,” points out Julian Jessop, Chief Commodities Strategist at Capital Economics. “It also has no intrinsic value, unlike gold, which at least can be used in jewellery and has industrial functions too.”

One possible catalyst for such a fall would be hostile actions from governments. While some have been tolerant of the new virtual currency, they may be less forbearing if it becomes a more serious rival. The value of Bitcoin fell almost 40% in just one day in December after Chinese authorities cracked down on the currency.

So while economists see Bitcoin as a fascinating new development, few believe it will emerge as a serious threat to national currencies. “The system of money we have at the moment works extremely well,” says Wolfers. “Bitcoin is a brilliant solution in search of a problem.” ■

What are your views on Bitcoin – is it here to stay or a passing fad? Email [richard.mitchell@cisi.org](mailto:richard.mitchell@cisi.org)

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# REGULATION ROUND-UP

	Who is creating the regulation?	The objective	Who will it affect?
<b>Markets in Financial Instruments Directive II (Mifid II)</b>	European Commission 	To move organised trading of financial instruments to well-regulated, multilateral platforms, and bring greater transparency for market participants. It is split into several areas, including: <i>Organised trading facilities (OTFs)</i> <i>Mandatory venue trading</i> <i>Third-country access</i> <i>The transparency regime</i> <i>Commodity markets</i> <i>Algorithmic trading</i> <i>Product intervention</i> <i>Inducements</i>	The biggest impact will be on banks, broker dealers, trading venues and the regulators themselves, but no one – especially in the over-the-counter (OTC) space – will remain untouched.
<b>Fourth Money Laundering Directive (MLD 4)</b>	European Commission 	To strengthen customer due diligence and provide consistent, reliable information on the ownership and control of business entities, foreign/private financial institutions, and offshore companies and trusts.	Most financial and credit businesses, as well as law and accountancy firms. Bodies that have responsibilities as Anti-Money Laundering Supervisors (as set out in the UK's Money Laundering Regulations 2007), such as HM Revenue & Customs, will also be covered.
<b>Foreign Account Tax Compliance Act (FATCA)</b>	US Internal Revenue Service 	To shift the onus of tax reporting and compliance onto any company holding or trading US assets on behalf of others. There will be rigorous client-identification processes and those deemed not to be compliant will suffer 30% withholding tax.	Every person or entity that has any interest in US assets – in capital value or income arising from them. Even firms with no US clients or investors will come under its remit.
<b>Capital Requirements Directive IV (CRD IV)</b>	European Commission 	To bring the regulatory standards on bank capital adequacy and liquidity of the Basel Committee on Banking Supervision into EU law.	Credit institutions and investment firms falling under Mifid II. Some Mifid investment firms carrying out agency activities are excluded.
<b>Alternative Investment Fund Managers Directive (AIFMD)</b>	European Commission 	To create a harmonised EU-wide framework for monitoring and supervising risks posed by Alternative Investment Fund Managers (AIFMs), and for strengthening the internal market in alternative funds.	Most hedge fund and private equity managers who manage funds or have investors in the EU, if they are the AIFM of a particular fund or funds, and the funds themselves.
<b>European Market Infrastructure Regulation (EMIR)</b>	European Securities and Markets Authority 	To move liquid OTC derivatives from OTC to on-exchange. To improve the solvency of central counterparties (CCPs). Qualifying CCPs will be permitted to draw upon a default fund in certain circumstances. Clearing members and their buy-side clients will incur extra requirements and costs regarding accounts.	EU-based firms entering into OTC derivative contracts (and their non-EU counterparties). Some OTC derivative contracts between non-EU counterparties.
<b>Market Abuse Directive II (MAD II)</b>	European Commission 	To expand the scope of the first directive to commodity derivatives and to create a new offence of attempted market manipulation – trying to manipulate the market without executing an order or placing a transaction. Also, to stop the manipulation of benchmarks, such as LIBOR.	All firms and individuals who participate in a regulated market, and financial instruments traded on a multilateral trading facility, OTF and OTC basis.
<b>Client Assets</b>	Financial Conduct Authority (FCA) 	To protect client money and expedite the resolution of payments if a financial institution collapses, even if legal rights are lost.	Any firm holding assets on behalf of clients, including banks and private wealth managers, or arranging this.
<b>Recovery and Resolution Plans</b>	Prudential Regulation Authority (PRA) 	To ensure any failure of a firm is orderly. This means it will be feasible to wind up the firm without severe systemic disruption and exposing taxpayers to loss.	Global and Domestic Systemically Important Banks, building societies and designated investment firms.

Firms are busy with many more regulatory changes than these. Others include conduct risk, outsourcing, Dodd-Frank, the Financial Transaction Tax and Packaged Retail Investment Products. As great a challenge to firms is maintaining and extending normal compliance monitoring and record-keeping beyond high-to-medium risks. At least

There are some major legislative and regulatory changes on the horizon for 2014 and beyond. **Beth Holmes** examines the key initiatives and takes a look at who will be affected and what they need to do

Steps for firms to take	Timescale
<ul style="list-style-type: none"> <li>• Complete a full analysis of the likely impact on the firm's trading and agency operations, including of transparency.</li> <li>• Look to the restrictions on third-country access.</li> </ul>	<ul style="list-style-type: none"> <li>• Prepare to publish trade reports through approved publication arrangements for all asset classes of Mifid II and much increased transaction reporting.</li> <li>• Consider the impact of the new inducements and best-execution rules.</li> </ul>
<ul style="list-style-type: none"> <li>• Ensure that client due diligence and money-laundering measures will include all persons dealing in goods or providing services for cash payments of €7,500 or more.</li> <li>• Take note of the impact on counter-terrorism funding and anti-money laundering regulation in the UK.</li> </ul>	<p>Most likely the end of 2015 and early 2016. Watch for level 2 ESMA detailed standards.</p> <p>Changes to UK law are likely to happen later in 2014. In the meantime, watch MLD 4 negotiations by the EU.</p>
<ul style="list-style-type: none"> <li>• To decide whether to register as foreign financial institutions and, if so, prepare to collect the extra necessary information from new clients from 1 July 2014.</li> <li>• Those with any US links need to consider registering, and prepare for the US FATCA regime, including collecting greater information from clients and extra work in making returns under it.</li> </ul>	<p>A staggered implementation, started in 2013. The cut-off date for the favourable pre-existing client treatment is now 1 July 2014.</p>
<ul style="list-style-type: none"> <li>• Firms must meet the minimum requirement for Tier 1 capital, which is increased from 4% to 6%, and the minimum requirement for Common Equity Tier 1, which is increased from 2% to 4.5%.</li> <li>• Prepare for a new default leverage ratio.</li> <li>• Follow tough new liquidity requirements.</li> </ul>	<p>CRD IV came into effect on 1 January 2014. Staggered implementation of requirements.</p>
<ul style="list-style-type: none"> <li>• Alternative fund managers (and investors in their funds) will have extra burdens in respect of registration, responsible individuals, capital, systems and controls, fundraising and remuneration.</li> <li>• Be aware of an EU passport that may be available to raise new funds.</li> </ul>	<p>AIFMD came into force in July 2013. Long-established AIFMs have until 22 July 2014 to apply for authorisation by their regulator.</p>
<ul style="list-style-type: none"> <li>• Relevant counterparties must ensure they meet the clearing, risk-mitigation and reporting obligations.</li> <li>• CCPs must prepare for requirements on their own capital, and prepare for individual client segregation in their accounts.</li> </ul>	<p>Came into force in 2012 with implementation completing in 2014.</p>
<ul style="list-style-type: none"> <li>• Make further investments in systems, controls and 'look-through' processes.</li> <li>• Consider automating transaction monitoring.</li> </ul>	<p>Expected in 2015.</p>
<ul style="list-style-type: none"> <li>• Ensure the safety of client assets and appropriately account for them. New-form bank trust letters and their acknowledgement must be obtained with great diligence – even from third-country banks and money market funds.</li> </ul>	<p>Following consultation, the FCA plans to publish a policy statement in the first half of 2014.</p>
<ul style="list-style-type: none"> <li>• Maintain and develop resolution packs and recovery plans. Both must be lodged with the PRA.</li> <li>• Be aware that the PRA may require simplification of group structure.</li> </ul>	<p>The rules came into effect in January 2014. These may change according to the EU Bank Recovery and Resolution Directive, currently under negotiation.</p>

technology and increased compliance resources help in this. For more detailed regulatory information, see the CISI's *Change – the regulatory update*, or visit [cisi.org/change](http://cisi.org/change)



Retiring Rathbones CEO Andy Pomfret's career has ranged from chartered accountancy to banking and regulation – but he also has a passion for engineering, he tells **Rob Haynes**

# Pluralism rules

**IF IT WERE** not for advances in printing technology, Andy Pomfret, Chartered FCSI(Hon), may never have embarked upon a career in financial services. The year was 1978 and Andy, having recently finished his A-levels, was enjoying a year out working for a printing technology firm, Roneo Vickers. “My first passion was engineering, and in many ways, it still is. I wanted to return to the firm after university.” Sadly, advances in printing techniques meant that the firm's line of hand-cranked stencil duplicating machines was old-tech, scuppering in the process Pomfret's plans to rejoin the firm after graduating from Cambridge with an engineering degree.

“Like many people, I wasn't sure what to do, so I decided on accountancy,” he says in an almost confessional tone. The year was 1982, a time when a chartered accountancy qualification was considered the best way into the financial services sector. Having spent three years qualifying at Peat, Marwick, Mitchell & Company (now KPMG), he “left quickly” for a career with investment bankers Kleinwort Benson.

Softly spoken and humorous, Pomfret is perhaps best summed up as eclectic. Lamenting the specialisation associated with the Square Mile nowadays, he says: “In my day, the great thing about investment banking was that you could do one of two things. You could specialise and become the best infrastructure expert, or the best at equities. Or you could do what I did: stick your hand up and say, ‘I'm bored and I want to move somewhere else.’ I like taking the skills I learned in one place and then applying them elsewhere five years later.”

This hankering for rediscovering old skills was part of the reason for Pomfret's move from Kleinwort Benson in 1995. Joining Rathbones as a finance director, those old core accountancy skills learned at KPMG were to prove invaluable. “After many years with nothing to do with accounts, I suddenly became a finance director of an investment manager that also had a banking licence,” he says. “How would that kind of move go down with the Prudential Regulation Authority these days?”

The value Pomfret places on plural knowledge has been evident throughout his career. When recalling his ventures in Poland while working for Kleinworts, he insists that knowing a lathe from a drill helped in his dealings with clients. “It was a time of mass privatisations in the early 1990s and Poland was a place of opportunity for the manufacturing industry,” he says. “Being

able to talk confidently about manufacturing gave me credibility.”

In the boardroom, too, Pomfret is keen to espouse pluralism and his enthusiasm for lively, problem-solving discussions is evident. “I really thrive when you have a team of people working together to genuinely solve problems – rather than just saying things for the sake of it,” he says, underlining his worth to the companies where

he has been, or is, a non-executive director, such as Beazley, the specialist insurer, and Graphite Enterprise Trust, the private equity investor. He sees this inclusive approach as part of his duty as CEO, but it is not always that easy. Pomfret explains: “It's incumbent on any CEO to develop people. I try to miss one executive meeting each year and one board meeting, on the basis that you can show you're not indispensable and



## CV snapshot

- 2004** – Becomes CEO of Rathbones
- 1999** – Joins Rathbones as Finance Director
- 1986** – Joins Kleinwort Benson and has various roles in a 13-year career, including as a corporate financier and a venture capitalist
- 1985** – Qualifies as a chartered accountant with Peat, Marwick, Mitchell & Company (now KPMG)
- 1982** – Graduates from Queens' College Cambridge with a degree in engineering

develop people to take over. Sadly, corporate governance standards drive you away from that: you have to report how many meetings you attend and it looks bad if you don't do them all."

For a man who once claimed to *Citywire* that "I spend between one and two days a week on regulation", Pomfret has a complex relationship with the theme of industry oversight. "Some 80% to 90% of regulation only asks you to do something you should be doing anyway. The sad thing is that regulations force firms to become bigger," he says. Yet in a world where hoards of science graduates work for City firms and on Wall Street, Pomfret sees a silver lining in the regulatory storm clouds. "It is a shame that so many people are lured into the City by high salaries," he says. "I do wonder whether these new regulations will force more engineers into being entrepreneurial in industry, rather than going into financial services." This comment may well be influenced by the fact his son is

currently studying engineering at university. Indeed, being entrepreneurial is a theme close to Pomfret's heart, and he holds up James Dyson – fellow CEO and engineer – as a paragon. "I'd say he's a pretty major influence. Inspiring, innovative, creative – Dyson's pretty incredible."

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***"I wonder whether new regulations will force more engineers into becoming entrepreneurial"***

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Does Pomfret still explore minor projects? "I'd like to but these days I open the bonnet of my car and I don't recognise anything!" He will have more time to dabble when he steps down at the

end of February. He plans to travel and become a career non-executive director, perhaps applying his passion for engineering. With both of his children now at university, the time seems right to explore new opportunities.

If 'inspiring' is a virtue he appreciates in others, it is probably something Rathbones colleagues feel about Pomfret. One clearly distressing period was the death of his finance director, Sue Desborough, a former colleague from Kleinworts he had personally recruited. Apart from the personal upheaval he had to deal with, Pomfret had to step into the breach and assume the role of Finance Director as well as CEO. "That 18 months was pretty much hell," he says. "I certainly wouldn't want to do that again. Ever."

If this episode marked the lowest point during his time at Rathbones, then the financial stats underscore his notable achievements. The company now boasts more than 40,000 clients with total assets under management of £22bn – figures that have swelled considerably during his time at the top. Not that he has an ego that would accept full credit. "I don't do personal pride," he adds. "It's a team effort." ■



### ***Education***

When he retires from his role as CEO at the end of February, Andy Pomfret will have successfully steered Rathbones through several of the worst market crashes in history. "On 30 December 1999, the FTSE 100 hit 6930, and we have not been back there since," he says. Understandably, an important part of his company's resilience has been the long-term attitude of both staff and its client base, who understand the ups and downs of the markets. He says: "Clients tend to be with us for the long term and don't panic if there is a 10% market fall."

A crucial part of retaining such clients is education – a theme that Pomfret, and Rathbones more generally, have been keen to engage with in recent years. With the CISI's support, the company has set up an apprenticeship scheme and has recruited six apprentices in its operational hub in Liverpool in 2013 who will complete two years of on-the-job training across a wide range of back-office duties. More generally, Rathbones has provided some financial training in a number of schools. "Financial education is done pretty appallingly in this country," says Pomfret. "The level of knowledge in some schools is terrible. But at Rathbones we are doing what we can to try to change this. Our work with the CISI and with schools fits in well with the culture and ethos of Rathbones."





Illustration: Great Apes

# Up and up again

As property prices heat up, the word ‘bubble’ is starting to be heard again. But are we really headed for another boom – and, if we are, is it such a bad thing? **Beth Holmes** investigates

**ON THE FACE** of it, history seems to be repeating itself. Report after report of rising house prices raise the spectre of another bubble that will burst just as it did in 2007. In January 2014, Vince Cable, Secretary of State for Business, Innovation and Skills, told an audience at the Bank of England that “we cannot risk another property-linked boom-bust cycle which has done so much damage before, notably in the financial crash in 2008”.

The latest report from the Royal Institution of Chartered Surveyors (RICS) says that, last December, the UK housing market saw its strongest level of sales since 2008. The report also predicts prices will rise by 5% on average in each of the next five years.

Peter Bolton King, Global Residential Director at RICS, said: “This seems like good news, but unless we see a marked increase in the number of homes coming up for sale, we could well be looking at price rises becoming unsustainable in some areas.”

An interesting counterpoint to this view comes from economist Colin Ellis at Birmingham University. He challenges the idea that a bubble is forming and asserts that

house prices are more sustainable than is widely perceived.

In his paper ‘Should UK House Prices Rise in Line with Earnings?’, Ellis questions the traditional methods of measurement within the housing market. “While market conditions provide a useful guide to short-term changes in house prices, it is harder to gauge the appropriate or equilibrium level of prices from these measures,” he says. “In order to attempt that, we have to take a longer-term perspective and consider the underlying determinants of housing demand.”

It is generally accepted that, whenever house prices rise disproportionately to earnings growth, they will correct eventually. Ellis disputes this, saying it assumes underlying conditions have been static. “There are several reasons why, in steady state, the house price to earnings ratio [HPE] may have increased in the UK over the past 20 years or so,” he says. The picture of HPE rises, shown in Figure 1, mark out the housing bubble of the late 1980s and the crash in prices following the financial crisis.

Ellis continues: “Lower inflation and nominal interest rates increase households’

ability to pay at the start of a mortgage. Lower real interest rates should also boost house prices, as well as other financial assets, and the slow growth – and mismatch – of housing supply relative to demand over time could also support a higher equilibrium HPE than a simple average would suggest.” He adds that greater financial liberalisation, particularly during the 1980s, made home ownership more accessible.

## Changing behaviours

But there’s another, more basic reason why house prices may not be as inflated as some people fear: today’s consumers may simply be willing to spend more of their income on housing than people were 30 or 40 years ago. According to Figure 2, housing now accounts for 22% of spending, compared with a figure of less than 10% in 1973.

“There has been a dramatic increase in the share of spending on housing,” Ellis says. “If you look at the increase, it’s big and not wobbly – there’s been a steady increase over a long period of time. If you think that relationship holds over the long term, this

suggests that equilibrium conditions have evolved over many years.” He does concede that this doesn’t mean property isn’t overvalued.

However, Ellis believes we will not see another crash. “Any future fall in prices may be much less pronounced than the doomsayers who focus on simple HPEs may expect,” he says. “Over the longer term, if consumers are prepared to spend more of their income on housing, then we should expect house prices to remain elevated relative to earnings, and even rise further.”

Andrew Oswald, Professor of Economics at the University of Warwick, urges caution. “People can always find reasons, when a bubble is growing, for why it is super rational and there are no worries in the sky,” he says. “It is the next two or three years, and the sharp gradient in current prices, that we need to worry about.”

Oswald is unconvinced about the logic of affordability. “What surprised me about last time [the market collapsed], and I believe there are vital general lessons here, was that the boom was sustained way past the point that

### ***“In the housing market, momentum is so incredibly hard to head off at the pass”***

seemed credible,” he says. “We were far, far above any ratios between house prices and incomes than had ever been seen before, yet for a while we went higher still.” From 2004 to 2007, for instance, the house price to earnings ratio in the UK was in excess of 6.0, but fell within two years to 5.0.

He thinks trouble is on the horizon yet again. “The problem with the housing market is that momentum is so incredibly hard to head off at the pass,” he says. “Momentum just sweeps through long-term logic. Even if the Bank of England tries to do something, it will just be like constructing a dam while the water is coming in around you as you build.”

A further point to highlight is that if there is a housing bubble, London and the South East

are inflating it: much of the rest of Britain’s heavily localised property markets have seen only small rises, resulting in a lopsided market. Figures from Nationwide show house price rises ranging from the North West’s modest 0.6% increase to London’s 9.3%.

#### **Cautious optimism**

Those on the ground are cautiously optimistic, however. Property developer Nick Kosky says: “I think that the housing market is able to withstand a small increase every year for the next three years. When I say small increase, I mean up to 7% per year. Anything above that may be harder to hold on to.”

Oswald may doubt the Bank of England’s ability to control a runaway horse, but the Bank continues to monitor the affordability of mortgages and took steps to dampen the housing market at the end of last year. The Funding for Lending Scheme offers cheap funds to lenders under the proviso that they then pass the money to mortgage borrowers and small businesses, and the Bank ended the mortgage initiative a year early in January 2014 to focus efforts on small businesses.

Another initiative aimed at boosting the housing market, Help to Buy, which offers government funding or guarantees to home-buyers with only a 5% deposit, will be reviewed annually by the Bank of England’s financial policy committee to ensure it’s not contributing to any new housing bubble. And in November 2013 Mark Carney, the Bank’s Governor, said the Financial Policy Committee would consider recommending a cap on loan-to-value and loan-to-income ratios.

All these policy changes can seem like sticking plasters, however, when faced with what many believe is the real issue: we simply don’t have enough houses to go round.

“We clearly have under-supply relative to demand,” says Ellis. “That’s widely accepted. It’s fundamental that if you want to bring house prices down, you need to build houses.”

Demand is ever growing. Life expectancy is increasing and the number of households is forecast to grow by 232,000 a year until 2033, according to the Office of National Statistics, yet the current rate of home construction is

### ***The UK’s other property market***

Those who aren’t able to get on the housing ladder face another challenge: the affordability of the rental market. Average monthly rents in the UK increased by 2% during 2013, while demand for rental accommodation increased 6% more than supply, according to a report from Countrywide. Areas where demand is increasing more quickly than supply are predominantly outside the South East and rental growth is beginning to reflect this.

The Confederation of British Industry recently warned that a generation of renters in the UK could be left behind unless something is done to boost the rental market. By 2018 it is estimated that one in five households will live in private rented accommodation, and if demand for private renting continues, £57bn of investment in new housing a year will be needed by 2016.

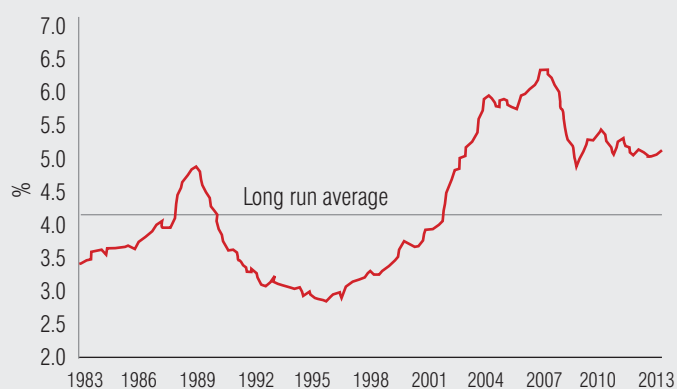
struggling to increase above 100,000 a year. Increasing the availability of credit cannot directly solve this problem.

Recognising this problem, in 2007, the Labour Government set a target of building 240,000 additional homes per year by 2016. Within this overall target was a commitment to build at least 70,000 affordable homes per year by 2010-11, of which 45,000 were to be new social rented homes. However, since the credit crunch of 2008, these targets aren’t being met.

From the property developer’s perspective, Kosky points out that creating enough supply is easier said than done, particularly for smaller players. “This is always difficult with the larger companies stockpiling land,” he says.

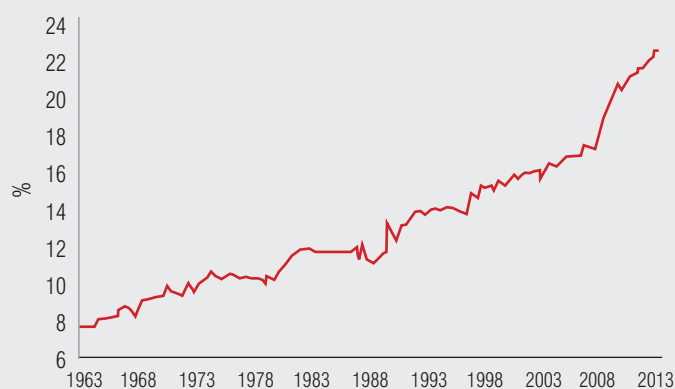
So while there are differing opinions on the severity and, indeed, the desirability of the continuing rise in property prices, there is consensus on one thing: for the next few years at least, rise they will. ■

**Figure 1 – UK house price to earnings ratio**



Source: Nationwide, ONS

**Figure 2 – Percentage share of spending on housing**



Source: Nationwide



A revolution is taking place in firms' use of IT through cloud-based services. While the prospects are exciting, there are real control and responsibility issues to be considered. **Peter Walker MCSI** outlines opportunities and risks for regulated financial businesses and points to potential solutions

# Heads IN THE CLOUD?

## What are cloud-based services?

Cloud-based services connect computers and applications through a real-time network (typically the internet), distributing access to information and expertise, and sharing resources to achieve economies of scale. Their key characteristics include:

- on-demand self-service delivery with no or minimal human involvement
- ubiquitous network access through a range of hardware devices
- resource pooling and automatic reallocation to manage fluctuating demand
- pay per use pricing.

## Economic and strategic prospects

IT and related services are significant elements of costs for most firms, and important in differentiating service quality. Cloud computing offers lower and more flexible IT costs, reduces time to market and IT development risks, improves distribution by enabling a wider range of devices and reduces entry barriers for new firms, speeding innovation and increasing competition.

Cloud computing is at an early stage, delivering IT services from full-blown applications to storage services and spam filtering. Aggregators and integrators are already emerging, so we should expect wider application of cloud services to enterprise level in the next few years. Long-term strategic value will be created by re-engineering processes to benefit from cloud computing, rather than just implementing current processes on the cloud.

Firms will need to decide which elements of their services can be provided through the cloud and which are controlled directly. Generally, those services that differentiate the firm will not be suitable for cloud-based provision, as they will not lead to economies of scale.

Non-core business processes, such as recruiting, billing and travel management, can more easily move to the cloud. A number of infrastructure operations, such as data-centre management, data storage and disaster recovery, may also move to the cloud after a

thorough evaluation of different offerings and their flexibility in documenting contracts.

Scenarios that may be suitable for cloud deployment by firms include:

- risk analytics
- performance attribution
- trade matching and reconciliation
- reference data virtualisation.

## Cloud computing and outsourcing

Financial service businesses already commonly use outsourcing models for some services, including data-centre management. Outsourced arrangements may include software provided and operated either by the customer or the outsourced provider, and may include flexibility in usage levels with a pricing model to reflect usage. Outsourcers typically have several users' data on their systems. Cloud computing is therefore a specialised form of outsourcing.

## Types of cloud computing

**Software as a service (SaaS)** delivers applications to customers through their internet browsers. Firms can escape upfront investment in servers, development and software licensing, only paying for what they use. Cloud-based providers need maintain only one application, reducing costs compared with conventional hosting.

**Utility computing** provides storage and other data-centre services, enabling IT to provide a virtual resource pool of memory, input and output services, storage and computational capacity available over the network.

**Web services in the cloud** range from providers offering discrete business services to Google Maps, payroll processing, investment research and credit card processing services.

**Platform as a service** delivers development environments as a service. You build your own applications that run on the provider's infrastructure and are delivered to your users via the internet from the provider's servers.

**Managed service providers.** One of the oldest forms of cloud computing, a managed service is basically an application exposed to IT rather than to end-users, such as a virus scanning service for email or an application-monitoring service.

**Service commerce platforms** offer a service hub that users interact with, such as expense management systems that allow users to order travel or secretarial services from a common platform that then co-ordinates the service delivery and pricing within the specifications set by the user.

**Internet integration.** The integration of cloud-based services is in its early days, but will eventually lead to enterprises largely comprising custom-linked services running



Image: Getty

on an agile, scalable infrastructure delivered through the web. It will take time to deliver, but we only need look to the growth of internet shopping to see its potential.

### Issues to be managed with cloud computing

While the benefits are tempting, a number of features need to be considered and managed when using cloud computing in a regulated firm. They include:

#### The ability to brand and differentiate services

Most savings in a cloud-based approach rely on the use of standardised applications. The more a firm wishes to offer a tailored or enhanced service, the lower the savings available. Future developments may allow some form of branding overlay so a client perceives they are getting service from the firm they signed up with, even though it is coming from a shared, cloud-based service.

#### Limits to delegation of responsibilities for data under UK compliance rules

Outsourcing is covered in the FCA and PRA's SYSC sourcebook (section 8) and Mifid requirements, and a firm's 'critical or important' functions would be subject to the same standards if delivered through a cloud-based approach. The firm must give advance notice to the FCA of any proposed material outsourcing arrangement, and is still responsible for:

- due diligence in selecting an appropriate outsourcing provider
- performance of the outsourcing service through detailed written service-level agreements

- controls and compliance standards in outsourced functions, including their auditors' and regulators' ability to check compliance. This cannot be prevented by legal requirements in the jurisdiction where the data is held and so may restrict some choices

### Most savings in a cloud-based approach rely on standardised applications

of outsourcing provider. Centralised support may be needed in some cases to lobby for these access rights, as seen recently when the Dutch central bank supported auditor access to Microsoft's Office 365 cloud-based product

- termination arrangements and exit strategies for the outsourcing without detriment to continuity or quality of client services
- maintenance of contingency plans that include dealing with failure of outsourced services, with service recovery times appropriate to the sensitivity of the service. For example, a cloud-based service giving clients the ability to trade online would need low probability of outage and rapid recovery times

- data confidentiality (especially client data) and protection of its intellectual property.

Client agreements cannot pass responsibility for problems to their suppliers, but a firm's contract with an outsourced supplier should include consideration of penalties in case of damage to the firm caused by deficiencies in the outsourced service.

#### Security of data and applications

Use of cloud services is likely to result in a firm's data being co-located with that of other businesses. A firm will need to satisfy itself that physical and logical access controls over both service provider staff and other clients are sufficient to maintain the integrity and privacy of its data.

Where a firm's own IT applications are developed or run on an outsourced environment, there are also risks to the intellectual property of the firm and suitable access control measures will be needed to ensure its protection.

#### Data protection

Under the Data Protection Act 1998 (DPA), issues can arise in relation to:

- transferring and processing employees' personal data
- ensuring that the supplier acts in all other respects (that is, other than in relation to its own staff) purely as a data processor (for example, that it applies sufficient security to other personal data and uses it only for the purposes that the customer permits).

The contract documentation generally deals with both matters, usually by including an undertaking by the parties to comply with the terms of the DPA. Where data is to be exported

for processing outside the European Economic Area, the parties may need to put in place additional measures to ensure that the export is permitted.

#### Data sovereignty

Firms may be concerned about intervention by foreign governments where their data is processed or held in foreign jurisdictions. An example is the Patriot Act and the US Government's ability to access data stored in US sovereign territories. In practice, most governments will have powers to access data in some circumstances.

Under current EU regulations, requests to access data by foreign regulators may conflict with EU data protection requirements. Any contract for cloud services that requires the storing of data outside of the EEA would therefore need to seek terms of service that allow for disclosure to a law enforcement agency 'whenever served with a legal request', and precedence must be given to EU data protection requirements.

#### Banking secrecy

Banks owe their customers a duty of confidentiality under English law, subject to certain qualifications; that is, they can disclose information about a customer where:

- required to do so by law
- it is in the public interest
- it is in the interests of the bank; or
- they have the client's express or implied consent.

There are additional requirements for firms that outsource portfolio management for retail clients to a supplier in a non-EAA state. Non-UK jurisdictions may place further restrictions on the physical location of client data and local advice should be taken.

#### Taxation

Any firm undertaking a project considering cloud implementation that could involve cross-border provision of services or data storage should consider whether there will be any implications for corporation tax or VAT.

#### Conclusions

Cloud-based services offer enticing opportunities for lower costs and better service delivery to clients and staff. Over time they may become a key plank of a 'virtual' business model. However, careful design and management will be needed to manage resulting risks. ■

**Peter Walker** MCSI is Director of The Business Key, a consultancy. During a 30-year career in financial services, he has held posts including Chief Operating Officer for Kleinwort Benson Private Bank and Head of Management Information Services for Coutts Bank.





# *Pushing the envelope*

An engineering professional receives a cash gift for her performance at a training conference. Should she accept the gift and what should she tell her employers?

**SAMI IS AN** experienced trainer for a well-known organisation and regularly hosts training sessions in London, which attract delegates from overseas. As a result, she is invited to represent her firm and speak at a training conference being hosted in the desirable location of Arcadia by Helix, a professional body for the engineering sector.

Sami is told that Helix will pay for all flights, transfers and accommodation during the three days that she will need to be in Arcadia to attend the conference. Her manager agrees that it is



Image: Getty

an excellent opportunity for both her and the firm, and that she should go. Sami also obtains agreement that she will take the opportunity to add on two days' leave and so spend a week in Arcadia, where she will be accompanied by her partner Jan. The couple will pick up the cost of the extra flights and hotel expenses connected with Sami's extended stay.

Sami and Jan fly out to Arcadia in advance of the conference and enjoy a relaxing two days before work intervenes. The conference goes well and the audience's reaction to Sami's presentation is so positive that she is asked to contribute to a panel discussion in place of a speaker who, at the last minute, is unable to attend.

### **Flying high**

Following the conference, Sami and Jan prepare to fly home. They are checking out of their hotel, which is where the conference had been held, when Sami is approached by Vern, Chief Executive of Helix, who says that he was afraid that he was going to miss Sami. Vern hands her an envelope, saying: "This is a personal thank you from us, in recognition of your contribution," adding with a knowing look at Jan, "I know that you have had extra expenses and we want you to think well of us."

Sami thanks Vern, saying that she looks forward to returning in the future, and puts the envelope in her handbag. Her taxi is waiting and they only have just enough time to get to the airport. With that, she and Jan depart.

On the way to the airport, Sami opens the envelope and is surprised to find, enclosed in a thank you card, five \$100 bills and a note

## ***Sami opens the envelope and is surprised to find five \$100 bills and a thank you note***

from Vern that reads: "Thank you so much for making our conference a success and I look forward to seeing you back again in the near future." Sami is uncertain how she should respond to this gesture.

Jan appears not to share Sami's hesitation. He says that it is quite obvious that the money is a personal gift from Vern to Sami and that there is no reason why she should not keep the money and use it to cover their holiday expenses. Before Sami can reply, they reach the airport and any discussion of the money is halted while they get out of the taxi and enter the terminal building. There they encounter a long line of returning holidaymakers waiting to check in for their flight, which has been delayed by three hours.

At this stage, Sami's initial thought that she could not keep the money and would return it to

Vern begins to weaken. Perhaps she can use the money to buy an upgrade to business class for herself and Jan. After all, company policy would have allowed business class travel if she had not been accompanied by Jan, and so upgrading now could be justified and she would use 'her' \$500 to pay for Jan. The company could not complain at that, as it would not be asked to pick up any out-of-the-ordinary expense.

As she is wrestling with this dilemma, Sami notices that Mervin, a fellow speaker who is a university professor, is noisily negotiating an upgrade to business class and she can see him waving in his hand what looks like \$500. At this point, Sami's uncertainty is resolved and she steps in line behind Mervin to upgrade her tickets.

Six hours later, high above the ocean and fortified by a meal and glass or two of wine, Sami begins to reflect on what she has done, and to consider how she might justify this to her employer, if called upon to do so.

## ***What do you think Sami should do, from the following options?***

- Sami could have sent the money back from the airport with a polite note thanking Vern but saying that, as she was representing the company and was not speaking in her personal capacity, she is not able to accept any form of payment. Perhaps she should do that when she gets home, but might Vern feel offended?
- What she has done is quite acceptable. She will declare her upgrade to her employer. The firm knows that Jan is travelling with her and she will not attempt to claim reimbursement for anything other than her own upgrade. She will declare to the firm the \$500 that she received and allow her employers to decide whether she can use it towards Jan's upgrade.
- She will claim for her own upgrade, but will say nothing about the \$500 that she has used for Jan's fare. The \$500 was a personal gift to her from Vern and nothing to do with her employer.
- She has paid for both her and Jan's upgrade on her company credit card. Because it is only for one leg of her return journey, possibly no one will query it and she may not be asked to pay anything. If she is, then she can declare the \$500 and offer that to the firm. Why should anyone complain about that? ■

*Visit [cisi.org/upgrade](http://cisi.org/upgrade) and let us know your favoured response. The results of this survey and the opinion of the CISI will be published in the April 2014 edition of the S&IR.*

## ***Guilt by association*** ***THE VERDICT***

Bob is a non-executive director of a number of businesses, one of which is subject to oversight by the UK financial regulator. This business – wealth manager Optimist – is censured and fined by the regulator for failings that Bob had identified and reported to both the chairman and chief executive, who had not taken any action.

Although no individual is named or censured by the regulator, the action is made public and the chairman of Marmoset, a medical charity of which Bob is a trustee, asks whether this would, or should, have any impact on Bob's role as a trustee.

This was the dilemma that appeared in the November/December 2013 edition of the S&IR. Readers were invited to vote in a poll on the CISI website on the course of action that Bob should take.

### **The CISI response**

A relatively small number of readers voted, but just over half of these (56%) felt that Bob should advise the chairmen of all those businesses where he holds directorships, leaving it to them to decide what action to take.

Nearly one third of respondents (28%) felt that Bob should resign from his charitable trustee role, because of its charitable nature and the danger of guilt by association tarnishing Marmoset's reputation. However, a small number in this resignation camp felt that there was no need to step down from his other directorships, as regulatory sanction is an accepted risk in financial services.

Some 16% of readers suggested that since the regulatory action was against Optimist and not Bob himself, there was no need for him to resign his trusteeship of Marmoset. This rather flies in the face of all the words that have been written or spoken about executive responsibility in financial services. Indeed, the failings for which Optimist was censured had previously been identified by Bob himself.

The CISI agrees with the majority view that Bob should advise his various chairmen and leave it to them to decide an appropriate response. This meets most effectively the requirements of Openness, Honesty, Transparency and Fairness. Additionally, in view of what has transpired since his original report into shortcomings at Optimist, he might wish to reconsider his ongoing relationship with the firm.



# Need to read

The latest publications and study aids supporting CISI qualifications

## NEW WORKBOOKS AND EARNING EDITIONS



### Certificate in Corporate Finance

The Certificate in Corporate Finance is aimed at individuals working in corporate finance and related areas who need to demonstrate a sound understanding of both regulatory and technical aspects of the subject. Candidates will have to pass two exams: Corporate Finance Regulation, and Corporate Finance Technical Foundations.

New editions of the *Corporate Finance Regulation* and *Corporate Finance Technical Foundations* workbooks and corresponding elearning products (covering exams from 11 April 2014) are out now.

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



## NEW WORKBOOKS AND EARNING EDITIONS



### Investment Advice Diploma titles

New workbooks and elearning editions (covering exams up to 30 December 2014) of the following Investment Advice Diploma titles are out now:

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

**Derivatives:** This unit provides those advising or dealing in derivatives with the knowledge and skills needed for their roles.

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



## NEW WORKBOOK AND EARNING EDITION



### Managing Operational Risk in Financial Institutions

Managing Operational Risk in Financial Institutions is a new level 4 qualification. It

aims to ensure that candidates can apply the knowledge, theory and practical techniques required to investigate an operational risk incident; manage operational risk in the long term; model appropriate behaviours to support operational risk management in the workplace; and effectively recommend and contribute to measures to enhance the operational risk culture and operational risk management in the workplace. The corresponding workbook and elearning product are due out in February (for exams from 11 May 2014) and will cover:

- fundamentals of financial risk
- operational risk within financial institutions
- application of the risk management process.

**Price: £100 for combined workbook and elearning product**

## NEW WORKBOOK AND EARNING EDITION



### International Certificate in Wealth and Investment Management

The objective of the International Certificate in Wealth and Investment Management (ICWIM), formerly

known as the International Certificate in Wealth Management, is to provide a test of competence for individuals engaged in private client asset management (discretionary portfolio management) and fund management. A new edition of the ICWIM workbook and corresponding elearning product (covering exams from 21 January 2014) is out now, covering:

- industry regulation
- financial assets and markets
- investment analysis
- investment planning
- lifetime financial provision.

**Price: £100 for combined workbook and elearning product**

## NEW WORKBOOK



### Global Operations Management

Global Operations Management, part of the Diploma programme, will assist candidates with their

understanding of operations and settlement procedures in order to service effectively the operations and settlement needs of a firm and its clients. The corresponding workbook (covering exams up to 27 June 2014) is out now, and covers:

- equities
- bonds and fixed income
- funds
- cash and money markets
- financial derivatives
- the trading environment
- regulation and compliance.

**Price: £150**

Visit [cisi.org/bookshop](http://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 continuing learning. This popular online learning tool, now enhanced and updated, allows self-administered refresher testing on a variety of topics.

New modules are added to the suite on a regular basis and existing ones are reviewed frequently by

practitioners. All modules are in line with the new UK regulatory environment. At the end of each module, there is a test that will help you to quantify the knowledge that you have gained. The product currently consists of more than 50 modules, including:

- behavioural finance
- financial crime
- the new UK regulatory environment
- taxation.

Passing a module is logged under the CISI CPD scheme.

**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](http://cisi.org/refresher) for further information.**



## External specialists

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

Around 300 external specialists 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, Corporate Finance Regulation, Derivatives, Life Insurance & Pensions Administration, and Securities.

To register your interest, contact Iain Worman on +44 20 7645 0609 or download the application form available at [cisi.org/externalspecialists](http://cisi.org/externalspecialists)

# Diary

Events to attend over the coming months



## Conferences

### 17 JUNE CISI Annual Conference 2014

Grange St Paul's Hotel, 10 Godliman Street, London, EC4V4†

### 9 JULY Compliance Professionals Summit

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

CISI members can attend each conference for just £200 (non-members £400). For further details, visit [cisi.org/conferences](http://cisi.org/conferences) or call +44 20 7645 0777.



### CONFERENCE SPONSORSHIP

To consider taking up one of the sponsorship or exhibition opportunities at this conference, please contact Victoria Caine on +44 20 7645 0655 or [victoria.caine@cisi.org](mailto:victoria.caine@cisi.org)

## The City Debate

### 17 FEBRUARY Mansion House, Walbrook, London, EC4

The City Debate has been running since 1996, courtesy of the Futures and Options Association, and it has become established as one of the City's more entertaining and intellectually stimulating debating forums.

It provides the City's international financial services community with the opportunity to address topical issues that have the potential to affect the current and future development of the industry.

This year's event, held jointly by the Centre for the Study of Financial Innovation and the CISI, comprises a black-tie dinner followed by a university-style debate featuring leading business and political figures.

The motion for debate in 2014 will be:

"This house believes that the 'normalisation' of interest rates will inevitably cause another financial and economic crisis."

The debate will be moderated by Angela Knight FCSI(Hon), former Chief Executive of the British Bankers' Association, and will feature as a keynote speaker former Cabinet Minister John Redwood MP.

Tickets are priced £230+VAT per person or £2,200+VAT for a table of ten.

For further details and to book your place, see [cisi.org/citydebate](http://cisi.org/citydebate), telephone +44 20 7645 0655 or email [victoria.caine@cisi.org](mailto:victoria.caine@cisi.org)

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27 FEBRUARY Getting to Grips with Operational Risk – for Non-Operational Risk Professionals £500

4/5 MARCH Understanding Regulation and Compliance† £900

6 MARCH Hot Topics in Operational Risk £500

11 MARCH Practical Guidance on Preventing Insider Dealing and Market Abuse† £500

12 MARCH Advanced Leadership Skills for Investment Professionals† £500

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

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## London CPD events

18 FEBRUARY Behavioural and Communication Skills for Wealth Managers†

SWIFT, The Corn Exchange, 55 Mark Lane, EC3

20 FEBRUARY Meeting the Challenges of Systems Development and Procurement in a Fast-Changing Regulatory Environment†

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

25 FEBRUARY Cyber Threats to Investment Banks and Exchanges

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

3 MARCH FCSI Masterclass: The Short-Term Outputs of Long Finance

London Capital Club, 15 Abchurch Lane, EC4

13 MARCH Stock Lending†

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

26 MARCH Blending Risk Factors in Portfolio Construction Using Passive and Systematic Funds†

Deutsche Bank, 1 Great Winchester Street, EC2

26 MARCH The Long Finance Spring Conference: Long-Term Performance Measurement in Finance†

Bank of America Merrill Lynch Financial Centre, 2 King Edward Street, EC1

For further information about London CPD events, visit [cisi.org/events](http://cisi.org/events)

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## Branch events

13 FEBRUARY Rare Stamps and Rare Coins: Trophy Collectible or Viable Asset Class – or Both?†

Jersey: The Royal Yacht, Weighbridge, St Helier, Jersey, JE2

25 FEBRUARY FCA Enforcement – Current Trends and War Stories†

Birmingham & West Midlands: TBC

26 FEBRUARY Communicate to Connect

Scotland: Morgan Stanley, The Cerium Building, 55 Douglas Street, Glasgow, G2

Continued on page 28

## RDR ANNUAL CPD

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



## Professional forums

## Corporate governance



Peter Swabey

Perceived 'roadblocks' hindering the implementation of good corporate governance practices were discussed at a recent Corporate Finance Professional Forum event.

Peter Swabey, Policy & Research Director at the Institute of Chartered Secretaries and Administrators (ICSA), and Edward Craft, Corporate Partner at Wedlake Bell LLP and Chairman of the Corporate Governance Expert Group of the Quoted Companies Alliance (QCA), shared their insights on corporate governance and provided input on key discussion topics.



Edward Craft

ICSA believes that good governance should underpin a company's long-term performance. The QCA's Corporate Governance Code for Small and Mid-Size Quoted Companies highlights the importance of relationships and communication between companies and their shareholders, and provides detailed guidance on the characteristics and composition of effective boards.

The forum, held at Berwin Leighton Paisner in the City of London, considered that effective corporate governance practice would constructively and properly challenge boards. However, for practices to be effective, corporate governance values need to be embedded in company culture and behaviours, including, critically, at board level. It was noted that many companies have difficulties understanding and implementing what is required due to the perceived complexity around multiple corporate governance codes and a general lack of cost-effective implementation advice available.

Further, while the market may recognise that 'one size does not fit all', regular reviews of a company's practices are necessary to ensure that they are fit for purpose in line with business development and changing guidance. True unification of external corporate governance codes is unlikely, however, mainly as they each seek to achieve different outcomes, and are targeted at different audiences.

The forum agreed that central to positive and effective corporate governance was a high-quality non-executive chairman. This individual should be the linchpin around which a company's corporate governance practices can be implemented and policed, and lead effective communication with all stakeholders of the company. It was acknowledged that it can be a challenge to source a strong chairman to discharge corporate governance responsibilities.

The forum debated the merits of certain European models. It was felt that they were not appropriate for UK companies and that Britain's own codes were more effective for the London markets.

Finally, it was concluded that everyone in the sector should do more to promote good corporate governance in general, be it within companies or in terms of providing advice, but at the same time, a pragmatic approach and a strong element of common sense need to prevail.

For information on forthcoming meetings of the CISI's six professional forums, visit [cisi.org/pf](http://cisi.org/pf)



## Branch events (Continued from page 27)

## 26 FEBRUARY Communicate to Connect

Scotland: TBC, Edinburgh

## 26 FEBRUARY The Retail Bond Market: A Key Part of the Investment Portfolio\*

Guernsey: The Old Government House Hotel, St Ann's Place, St Peter Port, GY1

## 27 FEBRUARY CASS – Client Asset and Client Money†

Liverpool & North Wales: Deutsche Bank, Royal Liver Building, Pier Head, L3

## 27 FEBRUARY CASS – Client Asset and Client Money†

Liverpool & North Wales: SL Investment Management, 8-11 Grosvenor Court, Chester, CH1

## 27 FEBRUARY Annual Dinner

Northern Ireland: University Road, Belfast, BT7

## 5 MARCH The Importance of Tactical Asset Allocation (TAA) in Today's Volatile Markets

Jersey: The Royal Yacht, Weighbridge, St Helier, Jersey, JE2

## 5 MARCH Annual Dinner

East Midlands & Lincoln: Devonshire Place, 78 London Road, Oadby, Leicester, LE2

## 7 MARCH Annual Dinner

Jersey: L'Horizon Hotel & Spa, La Route de la Baie, St Brelade, Jersey, JE3

## 26 MARCH Student Event: Bonds for Beginners

Liverpool & North Wales: Investec offices, 100 Old Hall Street, Liverpool, L3

## 15 MAY Annual Dinner

Bristol & Bath: Bristol Zoo, College Road, Clifton, Bristol, BS8

## 22 MAY Annual Dinner

Liverpool & North Wales: Crowne Plaza, St Nicholas Place, Princes Dock, Pier Head, Liverpool, L3

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Grace Addison  
Edward Cullen  
Samuel Leal

Finlay MacDonald  
Mona Mohtasseb  
Berger Paints  
Md. Meer Rahat

BlackRock  
Martin Bayfield  
BNP Paribas  
Aaron O'Neale

Brewin Dolphin  
Lee Allen  
Andrew Coles  
Brown Shipley  
Michael Boyd

Jonathan Chitty  
Capital Financial  
Training  
Nicholas Cunningham

Cavendish  
Timothy Roberts  
Charles Stanley  
Michael Donnelly

## Membership admissions and upgrades

<b>Citibank</b>	Aruna Harindra	<b>HSBC</b>	<b>University of Exeter</b>	<b>Citi</b>	Alan Rodgers
Michael Oshosanwo	Colombathantri	Dominic Harold Collinson	Sam Bedlow	Christophe Daviron	Christina Rogers
<b>Coutts</b>	Mark Derbyshire	Hollinghurst	<b>Walker Crips</b>	<b>Coutts</b>	Michelle Ryan
Joseph Batarseh	Steven Mark Dubberley	Daniel Gayle	Jennifer Steinbergs	Benjamin Allen	Paul Short
Shanti Kelemen	Richard Flynn	Malgorzata Herd	<b>Wells Fargo</b>	Graham Andrade	Michael Snowdon
Simon Pinckney	Gobind Kukreja	Paul Ridges	Antony James Williams	Malcolm Ash	Camilla Stowell
<b>Deutsche Bank</b>	Mark Ledger	<b>Islamic Finance</b>	<b>WH Ireland</b>	Neil Banks	Mark Stuchfield
Claus Trabold	Philip Milton	<b>Navigator</b>	Richard McCulloch	Nicholas Banks	Paul Summerell
<b>DPZ Synergy</b>	Gbemisola Abimbola	Zaineb Sefiani	<b>Others</b>	Neil Bartin	Janet Swift
Stephen Le Fondre	Osilalu	<b>J Edward Sellars</b>	Steven Amor	Andrew Beeney	David Thompson
<b>Ernst &amp; Young</b>	Matthew Smith	Ian Pennell	Aldwyn Boscawen	Robert Bhatnager	Jason Trolley
Edward Cahill	Tamis Smith	<b>Julius Baer</b>	Christopher Collins	Jonathan Bickerdike	Ian Turland
<b>European Investment Management</b>	Simon Tutton	Brian McEvoy	Samuel Gee	James Biggart	Giles Turner
Darron Preston	Jeremy Walker	<b>LGBCO</b>	Sarah Morris	Lee Blissett	Christine Wadley
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Adam O'Hara	Xiaojian Xian	Simone Schlaefli		Andrew Booth	Neil Woodrow-Clark
<b>Genesis Institute</b>	<b>ACSI</b>	Westerhuis	<b>Chartered FCSI</b>	Andrew Bradbury	<b>Credit Suisse</b>
Binod Shankar	<b>Aberdeen Asset Management</b>	Lloyds TSB	<b>Bestinvest</b>	Margaret Bradley	Charles Sanford
<b>Hargreave Hale</b>	Runa Begum	Simon Evans	Duncan Scott	Steven Brandreth	<b>Deutsche Bank</b>
David Walton	<b>Barclays</b>	Guy Reeves	<b>Brewin Dolphin</b>	Paul Bray	Ian Hill
Heather Yeardon	Alison Haynes	<b>Mashreq Bank</b>	Neil Campbell	Mark Bryant	Andreas Wichmann
<b>HD Capital</b>	<b>Barratt &amp; Cooke</b>	Muhammad Farid	Lynn Gibb	Peter Burke	<b>Duncan Lawrie</b>
Paul Dudley	Tom Lindsey	<b>Maxis Securities</b>	Stuart Lamont	Peter Calbraith	Colin Moore
<b>HSBC</b>	<b>Beaufort Securities</b>	Can Atalay	Gordon Macdonald	Nicholas Campbell	<b>Fundamental Asset Management</b>
Dorothy Hamilton	Saif Janjua	Ulas Ozturk	Alan MacPhee	Timothy Carr	Nigel Beynon
James Woodfall	Zahid Mahmood	<b>National Bank of Abu Dhabi</b>	Barry Shepherd	Andrew Christie	<b>Galvan Research &amp; Trading</b>
Christopher Uy	<b>Bestinvest</b>	Saeed Mubarak	Elaine Smith	Max Cleveland	Dean Stevens
<b>ICRA Lanka</b>	Daniel Szabo	<b>Northern Trust</b>	<b>Cazenove</b>	Gillian Clifford	<b>Halstead Independent Financial Management</b>
Sajeev Manoharan	<b>BNP Paribas</b>	Anne Le Lievre	Laurence Forrester	Anna Cole	Mark Halstead
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Craig Kimber	Gary Welford	<b>Quai Administration Services</b>	<b>Coutts</b>	Paul Gallagher	Douglas Brodie
<b>Murray Asset Management</b>	<b>Brooks Macdonald</b>	Sally Young	Paul Allen	Ivan Gallop	<b>NatWest</b>
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<b>Raymond James</b>	<b>Channel Islands Stock Exchange</b>	Samuel Smith-Bosanquet	<b>Redmayne-Bentley</b>	Wendy Johnson	<b>St James's Place</b>
Daniel Thompson	Jacques Loubser	Alexander Dymock	Piers Cockey	Anthony Jones	Philip Evison
<b>Reliance Mutual Insurance Society</b>	<b>Citibank</b>	<b>Seven</b>	Stacey Merron	Colin Jones	<b>Standard Bank</b>
Ebru Smith	Elena Sulina	Christopher Justham	<b>Smith &amp; Williamson</b>	Nigel Kerin	James Hibbs
<b>Seven</b>	Sofia Vakhidova	Benjamin Kumar	Peter Capper	Sean Knights	<b>TY Danjuma</b>
Suneet Kumar	<b>Collins Sarri Statham Exchange</b>	Alessandro Laurent	<b>St James's Place</b>	Kevin Koh Maier	Zhiling Pang
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				Anthony Robinson	
				Brian Robinson	

*This list includes admissions and upgrades from 1 November to 11 December 2013*



Seconds out: Simon gets to grips with one of his timepieces



# Like clockwork

Simon Porter ACSI enjoys having time on his hands, quite literally. **Lora Benson** reports



Simon Porter ACSI

**IF YOU ARE** a Disney aficionado, or you are the parent of smallish children, then you will be familiar with the character of the vintage doll repairer in *Toy Story*: large spectacles, special eyeglass and an

amazing leather case that, when opened, features tiny drawers containing screws and other repair paraphernalia – and he is not to be rushed in his work.

This skill set, and some of its features, cross over to the art of watchmaking – a hobby that began for Simon Porter ACSI when he was studying for his PhD in Mechanical Engineering at the University of Bristol.

“I bought an old pocket watch from eBay and set about the task of taking it apart and putting it back together again,” he says. “This process taught me a great deal about how mechanical watches work, and on a large enough scale that I wasn’t struggling too much with my amateur’s lack of finesse.

“I began reading up on horology and was soon looking through the course material for online watchmaking schools. Most of them started with the same movement, so I figured that I should too! I purchased a kit from one of the schools, which came with all I needed to build a movement, together with a case and hands and lots of drawings, and I set to work. Needless to say, my first effort would not have won any beauty prizes, but the sense of pride in building a fully

functioning watch that kept reasonable time was huge.”

Simon has made eight ‘skeleton’ watches for friends as gifts and as commissions. “I don’t see it as a business, as the money I charge for commission pieces just covers my costs and leaves me a bit of pocket money, enabling me to pursue my hobby,” he says.

## Time after time

Each watch takes Simon between four and six weeks to make. “When I am building a watch, I tend to try and work on it at least four times a week, in short bursts of 30 minutes,” he adds. “The biggest obstacle when watchmaking is one’s own patience. It is very easy to be on a roll

## *A speck of dust in a movement can ruin the timekeeping of a mechanical watch*

and want to keep going to the next step, before having a lapse of concentration and ending up on my hands and knees looking for a screw.”

Simon feels that the vogue for big watches plays to his strengths, as these larger watches are the type he currently makes.

He says: “Anything smaller, at this stage, would be a little too challenging! Skeleton watches, where the movement is clearly visible through the case, are all hand-wound – just good, old-fashioned clockwork.”

Essential bits of kit for this hobby include

a selection of tweezers, a set of micro screwdrivers and a movement holder to fix things in place. In addition, a set of eye loupes of varying magnification and a bright light allow him the degree of vision and illumination necessary for work with tiny components.

The essential attributes of a watchmaker are, according to Simon: “Steady hands, patience and impeccable housekeeping – a speck of dust in a movement can easily ruin the timekeeping of a mechanical watch. A watchmaker also needs a sense of imagination and the ability to envisage how a three-dimensional mechanism fits together.”

Simon takes inspiration for his watchmaking from some of the master watchmaking brands of past and present: “I very much admire Harry Winston. His Opus series well and truly pushes boundaries, both aesthetically and in terms of pure engineering.

“My favourite watch brands are Rolex, Breitling and Panerai. I like Rolex for its unrelenting commitment to quality on a large scale. Breitling makes fantastic-looking pilots’ watches, but is also an innovator; its Emergency watch has a built-in emergency transmitter that broadcasts for 48 hours once activated and has saved lives. I like Panerai for its no-nonsense aesthetic and good looks.”

Have any of Simon’s colleagues at Nils Taube Investments in London, where he works as an equity analyst, shown any interest in his horological passion?

“Indeed, they have,” he says. “I made a watch for a colleague as my very first commission.” ■

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

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