The inside view

As insider dealing grows more sophisticated, how can regulators police it most effectively? page 12

Christopher Adams
*Why fears of a eurozone break-up may be overstated, p11*

Inflated ambitions
*Is China headed for a credit bubble? p16*
network...

..and earn CPD hours at the same time!

Professional Interest Forums are free and available exclusively to CISI members

visit cisi.org/pifs for a list of forthcoming events and book your place today

or join the mailing list by emailing pifs@cisi.org
Features

12 COVER STORY: PLAYING CATCH-UP
Insider dealing methods are evolving. Richard Willsher asks how the regulators can best tackle the problem

16 ALL FALL DOWN?
China’s well-funded speculative activities and overinflated property prices could be creating a dangerous credit bubble

20 WEIGHING UP THE COSTS
Richard Willsher looks at how the FSA’s new Remuneration Code will affect businesses

Members’ features

22 CPD: SETTLE FOR LESS
Hugh Simpson looks at how Target2 Securities will change the European securities landscape

24 GREY MATTERS
The importance of transparency when it comes to client relationships

26 NEED TO READ
Catch up with this month’s essential reading

Regularitys

5 CITY VIEW
The Government must clarify its position on the high rate of inflation

6 UPFRONT
News and views from members of the Chartered Institute for Securities & Investment (CISI), including our regular back story by Clay ‘Mudlark’ Harris

11 FIRST PERSON
Christopher Adams on whether we should give credence to fears of a euro break-up

18 PROFILE: ROBERT STEELEMAN, CEO, DEBT MANAGEMENT OFFICE
Hugo Cox talks to the man responsible for raising UK Government finance

Contents
FED UP with City life?
Fancy Stockbroking/Fund Management by the seaside, living in or around North Wales?

If the answer is yes and you have the requisite experience and qualifications, please write in confidence to:

Laurie Beevers
WHI Stockbrokers Limited
15, Wymstany Road,
COLWYN BAY, N. WALES
LL29 8NB

Goodacre
High Quality Training for Securities Industry Professionals

- Full range of Market Subjects and Soft Skills
- Customised training available to suit specific requirements
- Lowest possible charges - from £39 per person
- Annual CPD Training Pass available

For full details:
Email: events@goodacreuk.com
Visit: goodacreuk.com
Call: +44 (0)20 7422 0063
Hidden inflation target

CISI OPINION

The Government must clarify its stance on the high level of inflation, or risk accusations that it is encouraging it for the sake of reducing the national debt.

HAS THE GOVERNMENT been rumbled?
Prime Minister David Cameron’s comments last month that he sees a threat from rising inflation are at odds with action taken by the Bank of England. This has raised the question as to whether the Government is quietly pursuing a hidden inflation target as part of its strategy to reduce the size of the national debt.

For the past three years, the attention of the public and media has rightly focused on the disintegration of the public finances and the tripling of the national debt from £290bn in 2002 to almost £870bn today. The medicine dispensed by the Chancellor in his first budget last June was aimed at balancing the Government’s annual income and expenditure by 2016. It wasn’t about reducing the overall size of the cumulative amount borrowed, which, even with George Osborne’s austerity measures in place, will continue to balloon a further 50% to £1,300bn.

However, a useful trick to reduce the real value of the debt burden is to quietly inflate. It is exactly what the UK did between 1950 and 1965, when the public finances were in a similar mess (debt was two and a half times GDP). The US pulled off the same scam in the 1970s, when nominal GDP exceeded the real interest rate by up to five percentage points. The losers in both cases, particularly in the short term, are holders of the debt, but this is difficult to maintain for any length of time as future holders will then price in higher expectation of inflation and charge more.

Is the UK Government trying to do the same again on the sky? It may appear quite a tempting proposition, particularly as more than £250bn of Government debt is held overseas, so a large part of the pain can be exported – for now.

Until the Prime Minister’s comments, which were extracted from him on a TV show, the evidence suggested the current and consistent high level of inflation was no accident. Both the Retail Prices Index (RPI), now 4.8%, and the Consumer Prices Index (CPI), at 3.7%, are more than a full percentage point above the Government’s forecasts. The Government’s preferred measure, the CPI, was over 3% for the whole of 2010, despite the Bank of England requirement that it should not breach 2%.

Why is it only now that the Prime Minister – and not the Chancellor – is berating the Bank of England Governor, Mervyn King, for the past three years, the attention of the public and media has rightly focused on the disintegration of the public finances and the tripling of the national debt from £290bn in 2002 to almost £870bn today. The medicine dispensed by the Chancellor in his first budget last June was aimed at balancing the Government’s annual income and expenditure by 2016. It wasn’t about reducing the overall size of the cumulative amount borrowed, which, even with George Osborne’s austerity measures in place, will continue to balloon a further 50% to £1,300bn.

However, a useful trick to reduce the real value of the debt burden is to quietly inflate. It is exactly what the UK did between 1950 and 1965, when the public finances were in a similar mess (debt was two and a half times GDP). The US pulled off the same scam in the 1970s, when nominal GDP exceeded the real interest rate by up to five percentage points. The losers in both cases, particularly in the short term, are holders of the debt, but this is difficult to maintain for any length of time as future holders will then price in higher expectation of inflation and charge more.

Is the UK Government trying to do the same again on the sky? It may appear quite a tempting proposition, particularly as more than £250bn of Government debt is held overseas, so a large part of the pain can be exported – for now.

The Prime Minister’s comments last month that he sees a threat from rising inflation are at odds with action taken by the Bank of England

and applying pressure to reduce inflation? Is it because it has actually suited the Government to let the inflation genie out of the bottle and hope that no one notices? The minutes of the Monetary Policy Committee, to December 2010, show that only one member, Dr Andrew Sentance, has recently called for an increase in interest rates and he has been regularly outvoted. Hence, the Bank’s Governor must be content, and therefore complicit, in accepting a higher inflation rate.

Furthermore, the RPI, which arguably resonates more with the average UK citizen, will soon reflect the 14.3% increase in the VAT rate to 20% and the cover that this has given many retailers to further increase their prices. However, the largest component of the increase in either index has been food and drink, which is significantly affected by the increased energy prices. With crude oil prices now approaching the $100-a-barrel mark, together with a further petrol duty escalator kicking in, inflationary pressures will increase, not reduce.

Once inflation expectations are raised, people’s wage demands will increase. Despite the tough economic climate, the large trade unions are not afraid to flex their muscles, with many having earmarked the three-day period at the end of April for co-ordinated industrial action. Add in wage demands for a 4% increase and we have a recipe for industrial strife not seen since the early Thatcher years.

Inflation also acts as a strong disincentive to save. It stealthily transfers value from savers, usually the elderly and retired, to borrowers, which is why, rightly, such prominence has been given to taming it. But, given the Bank’s reluctance to do so, it is understandable that commentators are starting to conclude that it is now ‘unofficial’ official policy. If the Prime Minister thinks otherwise, he needs to address this with considerably more vigour.

The Prime Minister’s comments last month that he sees a threat from rising inflation are at odds with action taken by the Bank of England
CISI accreditation for Morgan Stanley

Morgan Stanley has received global accreditation from the CISI for its innovative Derivatives Academy.

The training programme helps candidates develop key knowledge and skills in all areas of operations that support derivatives products, while understanding the Morgan Stanley approach and working ethic. The structured training includes classes, e-learning, exams and presentations to senior management. On completion of the programme, participants are well placed to contribute to and make key decisions on derivative products, processes and controls at Morgan Stanley.

Oliver Stuart, Global Head of Derivative Operations at Morgan Stanley, said: “Morgan Stanley is committed to offering high-quality training programmes and initiatives that improve knowledge and skills and actively help employees manage their career path. We’re therefore delighted to receive global accreditation of our programme by the CISI. It is a strong endorsement of the Derivatives Academy.”

CISI Managing Director Ruth Martin said: “I’m very pleased to award Morgan Stanley’s Derivatives programme with formal accreditation. The scheme is outstanding and engages with stakeholders at all levels, establishing an excellent foundation for continuing professional development. This training should set Morgan Stanley employees apart as having a most comprehensive learning and development programme.

About 350 operations employees at Morgan Stanley are undertaking the Derivatives Academy programme and that number is expected to increase in 2011.

New competence assessment guidance

The FSA has clarified who within a firm is responsible for competence assessments of staff.

Each significant influence function holder – a role held by many senior managers – is responsible for ensuring that “appropriate policies and procedures are in place” in their area of the business to review employees’ competence, skills, knowledge and performance.

Although the FSA guidance stops short of requiring significant influence function holders to check that the procedures are effective, they might have difficulty explaining if they are not. In other words, it is unwise for individuals to rely, without checking, upon HR or Compliance to take responsibility for competence assessments and annual CPD.

Separately, the FSA is considering issuing guidance on firms’ training and competence schemes.

For further information, see Policy Statement 10/18 at www.fsa.gov.uk

Warm reception for FSA move

The CISI has welcomed the FSA's decision to press ahead with the main proposals and timeframe of the Retail Distribution Review. It says that the FSA's commitment to professionalism through qualifications, continuing professional development and adherence to codes of conduct mirrors the holistic approach to competence embodied in the Institute’s mission and charter.

The CISI supports the requirement that retail investment advisers will need to hold a Statement of Professional Standing to show their competence if they want to give independent or restricted advice from January 2013. These requirements are set out in the PS11/01 policy statement and will be issued by FSA-accredited bodies and the Institute will apply to take on this role.

It is particularly pleased that the requirements for accredited bodies, set out in the FSA’s policy statement and final rules on the RDR (PS11/01), include that they act in the public interest.

CISI Chief Executive Simon Culhane, Chartered FCSI, said: “We all have an interest in building trust in the financial services sector. Central to that trust is demonstrable competence at adviser level. We intend to play our full part as a potential accredited body in enabling our members to fulfil these requirements.”

Ruth Martin, CISI Managing Director, added: “Many firms and advisers have already worked hard to complete the qualifications part of the RDR journey, including thousands who invested in higher-level qualifications even before the RDR was initiated. Thousands more have been logging relevant CPD of 35 hours a year. Their achievement will now be built upon as we prepare to pilot Statements of Professional Standing during 2011 to ensure that all those who use the CISI’s services can be at the forefront of the profession by the time the RDR is fully implemented at the end of 2012.”

The CISI will stage a further series of 15 roadshows around the UK in March to help practitioners prepare for the RDR and Statements of Professional Standing.

To read the CISI’s full response to PS11/01, visit cisi.org/rdr. For a full list of RDR roadshow dates, see page 28. To book a place at a roadshow, contact the CISI Events team – email region@cisi.org or call +44 (0)20 7645 0652.
New CISI committee for Gibraltar

The CISI has formed an advisory committee to support its development in Gibraltar.

The committee comprises five practitioners who will represent the local industry and direct the work of the Institute there. Its President is Mark Maloney, Chartered MCSI, Managing Director of Gibraltar Asset Management Ltd. Other members are: Lindsay Adamson FCSI, retired stockbroker and currently a licensed director of several investor funds; John Holliswell, Chartered FCSI, Director, Line Management Services; Paul Tapsell MCSI, Associate Director, SG Hambros Bank; Clark Elder, Compliance Project Manager, Global Advisory Services.

The committee will, in partnership with the Gibraltar Funds & Investment Association (GFIA), promote the CISI’s range of professional qualifications and regular continuing professional development events to those working in the financial services sector.

The CISI recently accredited Global Advisory Services as a training provider in Gibraltar for a number of its qualifications. Candidates can take both computer and paper based exams locally.

Guest speakers at this month’s launch at the Elliott Hotel will include Gibraltar’s First Minister Peter Caruana and Marcus Killick FCSI, Chief Executive Officer of Gibraltar’s Financial Services Commission (FSC).

Marcus Killick said: “The FSC welcomes this initiative by the CISI. It will assist in cementing and increasing the skill levels of those working in fund and wealth management companies in Gibraltar.”

See ‘60-second interview’ with Mark Maloney, right, for an insight into Gibraltar’s financial services industry.

60-second interview

With: Mark Maloney, Chartered MCSI, President of the new CISI National Advisory Council in Gibraltar and Managing Director of Gibraltar Asset Management Ltd

Q How important to Gibraltar is the financial services industry? Gibraltar’s economy is well represented by the financial services industry, from private banking to insurance (8% of all UK car insurance is written in Gibraltar), fund administration and broking/investment management.

Q What are the key strengths of the territory’s financial services sector? Gibraltar is an EU onshore financial centre that benefits from a low operating cost base, a highly accessible and adaptable regulator and a low tax environment (there is no tax on interest/dividends, capital gains tax or inheritance tax for individuals, no VAT and a flat 10% corporation tax rate). A warm climate, British sovereignty and political stability, plus a high standard of living and a legal system based on English common law, complete the sunny picture.

Q What is the main challenge facing the industry? Quality office space is at a premium in a territory measuring 2.5 square miles, and Gibraltar has not been immune to the credit crunch, with private developers finding it difficult to obtain bank finance for projects. This is being managed by the local government, which may remedy the situation by taking stakes in selected projects. A £120m, 37,000-square-metre, mid-town office/residential development is planned and, separately, a £35m, seven-storey World Trade Center is to be constructed in 2012.

Q What are the prospects for the industry over the next five years? Gibraltar is, unlike many EU economies, enjoying tremendous growth in financial services. We look forward to welcoming fund managers from Mayfair bidding to escape penal fiscal policies, insurance companies seeking a flexible and customised regulatory approach and funds wanting to relocate to an EU jurisdiction following the Directive on Alternative Investment Fund Managers.

Boost for unemployed graduates

Unemployed graduates in Northern Ireland are being given a helping hand to enter the financial services industry by studying for a CISI qualification.

The University of Ulster’s Graduate Development Programme in Financial Services has been developed with the Department for Employment and Learning (DEL).

The DEL is funding the costs of students for the two-month scheme, which comprises three CISI exam modules. These cover an introduction to securities and investment, financial regulation and global securities operations. Successful completion of each leads to the award of the CISI Investment Operations Certificate (IOC), also known as the Investment Administration Qualification (IAQ).

Philip Hamill, Professor of Finance and Investment, University of Ulster, said: “This qualification is a must for many employers in the financial services sector.

“Our initial target was 25 candidates, but about 100 students enrolled in the programme. An outcome we didn’t expect was the level of interest from applicants in employment. Consequently, we have a significant number of students already in professional employment, mostly IT, who used their annual leave to free up the time to participate.

“The scale and mode of delivery of the programme is a significant departure from the traditional academic model. Making it happen was a significant logistical challenge that was possible only because of the support of the CISI.”

John O’Keeffe, CISI Head of Educational Development, said: “These students will be gaining a recognised benchmark qualification that will be very attractive to employers.”

The university runs a range of qualifications in financial services, including a postgraduate degree accredited by the CISI.
EU opinion divided evenly

There is an even split within the financial services sector over whether the UK would be better off economically by remaining in the EU or leaving the union of 27 countries, a CISI survey shows.

Of more than 500 respondents, 51% say the UK should stay put within the community, while the other 49% feel the country would benefit by quitting the EU.

One supporter of the UK remaining in the EU warned: “It would be a great tragedy not just for the UK, but future world stability if Britain left the EU.”

“For better or for worse, our destiny lies in closer integration with Europe” and “the EU has better bargaining strength than the UK alone” were among further views.

Putting the other side of the argument, a respondent said: “We’re an entrepreneurial lot (shopkeepers, according to Napoleon). The UK economy would make progress outside EU control.”

Other comments included: “If it left, the UK would not be required to comply with EU directives that drag down its strength than the UK alone” were “For better or for worse, our destiny lies in closer integration with Europe”

“tragedy not just for the UK, but future world stability if Britain left the EU.”

Putting the other side of the argument, a respondent said: “We’re an entrepreneurial lot (shopkeepers, according to Napoleon). The UK economy would make progress outside EU control.”

Other comments included: “If it left, the UK would not be required to comply with EU directives that drag down its strength than the UK alone” were “For better or for worse, our destiny lies in closer integration with Europe”

49

The number of countries in which the CISI set a total of almost 40,000 exams last year, covering a range of vocational qualifications.
Matt Aylward, Chartered MCSI, is living proof that what might be seen as career suicide – quitting the same employer three times – could actually make perfect sense. Matt, Director of Investment Services at Brooks Macdonald Asset Management, won my 2010 ‘Mudlark award’ for exceptional performance in the back office, due to his achievement in running the firm’s project management teams.

But Matt’s career was largely built at Brewin Dolphin, where for some years he seemed to be doing as much going as coming. After college in Essex, Matt started at Schroders Asset Management on a six-month contract, working in institutional settlements. It was a good introduction to the City and he was offered another six-month stint, but he didn’t really enjoy the atmosphere.

He found things better at Williams de Bröe, where he worked in the middle office supporting a fund management team. When that team moved to Brewin Dolphin, he was asked to transfer.

After 18 months, it was time for a change, so Matt took voluntary redundancy. He and his fiancée took a year’s break to travel, getting married in Australia. “When I returned to London,” he said, “I contacted my old boss and said: ‘I’m back in town; is there something you can do for me?’”

Brewin Dolphin had moved its back office to Newcastle, so Matt moved north, too. He was initially a project manager, troubleshooting and running the share register for three companies.

After 18 months, he was asked to set up and head a new business unit to handle all aspects of client and asset transfers. It often required diplomatic skills dealing with back office staff in other firms who faced losing their jobs once transfers were complete.

“It went surprisingly well,” Matt says. “It was my first management role and quite a pressured one.” In 2006, he and his wife decided it was time to move back home and he quit Brewin Dolphin again, going travelling for another three months. “It was perfectly amicable. I left the existing model working extremely well,” he says.

Matt had also, through the CISI, passed Investment Administration Qualification exams and an advanced paper, helping him to become a Chartered MCSI of the Institute. After the break, he went back to Brewin Dolphin for a third time, working in direct team support. “It was fine, but a step backwards from management in terms of career progression.”

He learned that Brooks Macdonald was looking for an operations manager and, while he didn’t land that job, he was offered an alternative position as Corporate Development Manager, a role that involved a lot of troubleshooting.

That meant he kept getting involved with the back office, eventually leading to his current job, which has responsibility for the back office and systems development. In two years, his team has grown from six to 23.

Matt is a huge advocate of cross-training and making sure that staff focus on relationships with contacts inside and outside the firm: “Every element of this industry boils down to maintaining good relationships.”

Sri Lanka partnership launched

The CISI and SLASSCOM (the Sri Lankan Association of Software and Service Companies) have signed a memorandum of understanding to support the development of the Sri Lankan financial services sector. The agreement focuses on promoting the CISI’s qualifications to SLASSCOM member firms working in the industry.

SLASSCOM is Sri Lanka’s trade body representing IT and business process outsourcing (BPO) companies.

The promoted qualifications include:

- International Introduction to Investment, aimed at new sector entrants, with a particular focus on international markets
- IT in Investment Operations, an exam for IT practitioners
- the Investment Operations Certificate, a qualification for administration and operations staff

Joint initiatives will include promoting Sri Lanka as a destination for finance BPO companies and expanding continuing professional development (CPD) programmes on themes relevant to the industry.

CISI Chief Executive Simon Culhane, Chartered FCSI, said: “This initiative will bring our qualifications and CPD programmes to the heart of the Sri Lankan financial services community, contributing further to local skill levels and helping the industry build a world-class reputation for excellence.”

The Institute’s qualifications have already proved popular with BPO and IT companies in India and other key outsourcing areas. “This partnership with the CISI will help increase the number of qualified professionals available for the industry to take advantage of global opportunities in securities and investment domains,” said Dinesh Saparamadu, Chairman of SLASSCOM.

• The CISI was an official Silver sponsor at the recent EDEX 2011 Sri Lanka National Higher Education and Careers Exhibition. “The CISI’s programmes will address a skills gap in the financial services industry,” said Kamal Abeyesinghe, EDEX Chairman.

“It’s a boon to young people who are eager to join the industry with a globally recognised qualification, adding value to the range of opportunities offered at EDEX Expo.” The event was held from 22–24 January in Colombo and on 26 and 27 January in Kandy.
Ask the experts...

WHAT IS THE IMPACT OF THE FSA’S RECENT PROPOSALS ON PLATFORMS AND THEIR USERS?

THE PROPOSALS
The FSA published its proposals on the future regulation of fund supermarkets and wrap platforms in Consultation Paper CP/09/29 last November following its Discussion Paper DP/09/2 last March (see July/Aug 2010 S&IR).

The key decision is that platforms’ main activity is to provide administrative services to fund managers rather than to act as their distributors (therefore managers should be able to continue to pay platforms). Among conditions for this, platforms should be product ‘neutral’, and the payments should be disclosed to clients.

The definition of ‘platforms’ excludes execution-only platforms (which will still need to disclose payments), related services generally provided to investment management customers and those that are purely funded by ‘customer agreed remuneration’. Wrap platforms that receive rebates and pass them to clients are included. It is not yet decided whether cash rebates will be banned.

The consultation closes on 17 February, and the FSA proposes to issue a policy statement and final rules in 2011.

✦ Why are the proposals important?
Assets administered by platforms are estimated to exceed £50bn and are growing strongly. Many advisers and consumers are directly affected.

✦ Who stands to win and lose?
WINNERS
Consumers
• Product neutrality will provide more access to non-low-commission paying products, such as exchange-traded funds.
• Unbundling of platform charges from product charges will enable consumers to compare platforms’ costs, some of which are currently not disclosed. This may drive down platform costs paid by the consumer (often about 0.25% of assets).
• Transfer of consumers’ assets between platforms without encashment.
• More rights to information on corporate events.

Advisers
• Continue to use platforms without clients paying for them.
• Easier to maintain ‘independence’ for Retail Distribution Review purposes.
• Wider variety of products on platforms.
• Increased unbundling of platform from managers’ charges offers a clearer picture of how much the customer pays for each.

Platforms
• Fund managers will still be able to pay platforms’ costs.
• Platforms may receive more from managers than others funded by consumers.
• No specific permission or capital regime for platforms but Pillar 2 capital calculation should reflect platform role and risks.
• Open-architecture platforms better able to enable advisers to be ‘independent’.

Fund managers
• Managers can choose to either perform multiple class administration themselves, or to pay a platform to do it.
• Non-low-commission managers better able to persuade platforms to list their products for product neutrality and adviser ‘independence’ reasons (described earlier).
• Apparent continuing ability of managers to give payments,

LOSTERS
Consumers
• Platforms continuing to have a potential conflict of interest between payment by managers and consumers.

Advisers
• Advisers charging a single total management/platform fee to consumers who will compete against platforms with manager payments.
• Managers not using platforms who ask consumers to pay all their costs and who compete against platforms that do.
• Fund managers’ rights, at their discretion, to ask for generic information on advisers’ consumers.

Platforms
• Smaller platforms with less negotiating power on payments from managers. Platforms cannot make payments to advisers, such as introductory fees.
• Platforms or private banks or managers with a restricted range of products expecting advisers to use them as a single platform for all trades – the FSA expects ‘independent’ advisers to conduct off-platform trades where appropriate for the client.

Fund managers
• Less influence based on commercial terms on the products listed (and their ranking) on platforms and advisers.

Do you have a question? richard.mitchell@cisi.org

QUICK QUIZ

Test your industry knowledge

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

Answers are on page 29.

To order CISI elearning products, please call Client Services on +44 (0)20 7645 0680 or visit cisi.org

Q1 Which ONE of the following administers the Listing Rules in its capacity as the UK Listing Authority?
A) Bank of England B) Financial Services Authority C) HM Treasury

Q2 In which ONE of the following circumstances could someone use the remittance basis of taxation?
A) If they are resident in the UK during a tax year and ordinarily resident B) If they are resident in the UK during a tax year but not domiciled in the UK C) If they are not resident in the UK during a tax year but ordinarily resident

Q3 The FSA’s fundamental requirement to treat customers fairly was first set out in which ONE of the following?
A) Code of Practice for Approved Persons B) Principles for Businesses C) Statements of Principle

Q4 If a complainant wishes to approach the Financial Ombudsman Service (FOS), what is the minimum time before he can do so?
A) Four weeks B) Six weeks or at the discretion of the FOS C) Eight weeks or once the firm’s final response has been given
Eurozone emergency?

The Greek and Irish bailouts have made governments and investors skittish, but fears of the break-up of the euro may be overstated

What odds on the euro’s survival? The debt crisis in the eurozone has already pushed Greece and Ireland to accept financial rescues; Portugal may be next, or even Spain. If there is much more of this, some economists fear that the single currency could break apart. So great is the concern about Europe’s debt problems that the Centre for Economics and Business Research has warned of another crisis in the spring, when Spain and Italy have to refinance more than €400bn of bonds. This might be the trigger for euro break-up, it says, with the caveat that a more likely catalyst will be the failure of indebted member states to take the tough medicine they need for longer-term recovery.

I’ve learned that the higher the ‘doom and gloom’ headline count, the greater the probability that the bad news is already priced in. On that basis, some of the dire media predictions look overcooked.

For sure, there is a good deal to worry about. The eurozone faces a considerable challenge over the coming months. The reason that interest rates demanded by investors to hold the sovereign debt of peripheral member states have risen as much as they have – in some cases to euro-era highs – is that few in financial markets believe in a ‘risk-free’ rate anymore. After the Greek and Irish rescues, investors are re-pricing government debt in a process that has further to run. This has knocked eurozone debt markets badly and could yet hamper Italy, Portugal and Spain’s ability to meet their refinancing needs.

It is not just the eurozone governments that could struggle. Companies and banks have sizeable needs too. Deutsche Bank estimates that more than half of the €1.300bn of bank debt that needs refinancing in the next three years will come from peripheral banks, especially Italian and Spanish ones. Moreover, as the US economic recovery starts to gather pace, there is a feeling that European growth, Germany apart, will be sluggish at best. Other countries could devalue their currencies to restore competitiveness. Eurozone members cannot do that. And, as they push through tough austerity programmes, economic weakness means contagion will remain a risk.

For all that, there are grounds for optimism. Jim O’Neill, Chairman of Goldman Sachs Asset Management, is wary of the lazy, pessimistic consensus that has taken hold. The eurozone might get through this critical period without fresh investor strikes, he says. In any case, as the rest of the world’s economies improve, investors’ fears about the debt crisis could be displaced by a search for return. Some of the wider bond spreads in Europe would then start to look attractive, making it easier for governments to refinance.

Yes, another sovereign bailout is possible. Smaller banks may be allowed to fail, with shareholders and even bondholders paying the price for over-exuberant lending in the past. One or two member states unhappy with the currency straitjacket could yet jump ship. But the political will of most countries to keep the currency union functioning will probably hold the euro together. The bigger debates will be about stronger fiscal co-ordination and debt restructuring.

For now, there appears to be little appetite for greater fiscal union. The eurozone issued its first bond as a single entity in January, to help fund part of Ireland’s international rescue, but Germany has already dismissed proposals for jointly guaranteed eurobonds. Close co-ordination of tax and spending policies is certainly too big a step to even contemplate. But a debt restructuring – or default, in effect – looks probable, not least because Berlin wants it to happen.

That’s what lies behind plans for a longer-term European bailout mechanism. It won’t happen today or even this year, but bondholders and shareholders will at some point share the pain for the profligacy of the EU’s peripheral nations. Give them some certainty on the terms and investors might prefer that to the political indecision that has made the crisis worse.

Christopher Adams is the Financial Times’ markets editor.
In the battle against insider dealing, the FSA is getting tougher, the US regulator is securing billions in prosecutions and the net will soon tighten around wrongdoers in Hong Kong. But how effective is policing as offenders become increasingly international and their methods ever more sophisticated, asks Richard Willsher.
Playing catch-up

Contrasting definitions of insider dealing

UK
Trading on price-sensitive, non-public information or disclosing it to others who trade on it.

USA
Trading on material, non-public information obtained counter to a duty to keep it confidential.

Hong Kong
Dealings by “connected” persons using “relevant information” or disclosing the information to others or procuring others to deal on such information.

European Market Abuse Directive
“Market abuse may arise in circumstances where investors have been unreasonably disadvantaged, directly or indirectly, by others who have used information which is not publicly available (insider dealing).”

defendants have pleaded guilty to involvement in a fraud centred on the New York hedge fund Galleon Group. Galleon founder Raj Rajaratnam, who denies wrongdoing, is due to face trial later this month.

Big brother
The FSA and its European peers lack the teeth of the SEC, which can levy civil penalties of up to three times the profit gained or loss avoided from illegal activities, with a minimum fine of $1m for the person who masterminded the breach. The FSA’s new penalties policy, introduced in March 2010, aims to address this. Civil fines are more closely linked to income, with penalties starting at £100,000 for individuals in serious market abuse cases.

But there is little uniformity in policing insider dealing at a European level. Last December, a European Commission paper aimed at reinforcing penalty regimes in the financial services sector noted that only 12 member states had provisions for sanctions for insider dealing under the EU’s Market Abuse Directive that at least matched the level of benefit that offenders would derive from the violation.

The FSA cannot call on the range of prosecution options available to its US counterpart. Since April last year, however, it has been allowed to strike plea-bargains with insider dealers. This new weapon in its armoury was used for the first time in the case of Anjam Saeed Ahmad, a former hedge fund trader and risk manager, who entered a guilty plea in May last year to charges of conspiring with an accomplice to deal in at least 19 securities. He was sentenced to ten months’ imprisonment, suspended for two years, given 300 hours of unpaid work in the community and fined £50,000.

Ahmad entered into a ‘plea discussion’ last year, the FSA’s ‘credible deterrence’ strategy came of age, having been in the making since 2007. Margaret Cole, the regulator’s Director of Enforcement and Financial Crime, describes the move to deterrence as one driven by a desire to become an enforcement-led regulator, an approach long used by the Securities and Exchange Commission (SEC) in the United States. The result is that the FSA levied fines of more than £89m during 2010, nearly three times the £35m figure for 2009. This activity led to 60 people being banned from working in the City and the regulator’s first cross-border insider dealing action in concert with the US. Market abuse, which includes insider dealing, amounted to £10m, and the FSA has now secured six successful criminal insider dealing prosecutions. High-profile successes included the prosecution of Malcolm Calvert, a former equities marketmaker at stockbroker Cazenove, who was last year jailed for 21 months. Only last month, senior investment banker Christian Littlewood and his wife, Angie, together with family friend Helmy Omar Sa’aid, pleaded guilty to eight counts of insider dealing that allegedly netted them a £590,000 profit. Sa’aid was the first suspect extradited to the UK from overseas at the request of the FSA following his arrest on the island of Mayotte in the Indian Ocean. A further 12 individuals are currently being prosecuted for insider dealing.

“The FSA seems to be following through on what it has been promising for a long time and has made sure that the action it has taken is well publicised,” says Carmen Reynolds, a partner in the Banking and Capital Markets Group at international law firm White & Case. The US has stepped up insider dealing criminal prosecutions since 2009 and is currently witnessing what prosecutors have described as the largest ever case in the hedge fund sector. Seventeen of 24 high-profile successes included the prosecution of Malcolm Calvert, a former equities marketmaker at stockbroker Cazenove, who was last year jailed for 21 months. Only last month, senior investment banker Christian Littlewood and his wife, Angie, together with family friend Helmy Omar Sa’aid, pleaded guilty to eight counts of insider dealing that allegedly netted them a £590,000 profit. Sa’aid was the first suspect extradited to the UK from overseas at the request of the FSA following his arrest on the island of Mayotte in the Indian Ocean. A further 12 individuals are currently being prosecuted for insider dealing.

“The FSA seems to be following through on what it has been promising for a long time and has made sure that the action it has taken is well publicised,” says Carmen Reynolds, a partner in the Banking and Capital Markets Group at international law firm White & Case. The US has stepped up insider dealing criminal prosecutions since 2009 and is currently witnessing what prosecutors have described as the largest ever case in the hedge fund sector. Seventeen of 24
under the Attorney General’s Guidelines on Plea Discussions in Cases of Serious or Complex Fraud and the judge made it clear that this had helped save him from immediate imprisonment. This may be an example that other offenders may be encouraged to follow in future.

Calum Burnett of London law firm Allen & Overy explains: “The UK’s market abuse regime sets a standard of proof for the FSA that is hard to meet and makes it difficult to pursue cases. Therefore, it often chooses to pursue a criminal offence because the cost and effort is unlikely to be materially greater.” While the FSA’s costs of bringing a civil market abuse case or a criminal one are likely to be similar, the deterrent effect of a possible prison sentence of up to seven years and a criminal record is clearly greater than that of paying a civil fine. Fines in the UK and Europe are still dwarfed by those in the US. The SEC’s 2010 Performance and Accountability Report noted that its Division of Enforcement obtained $2.2bn in penalties and disgorgement over the year. The recently enacted Dodd-Frank Act also provides those blowing the whistle on financial crime with rewards of up to 10% of the total fine. In total, the SEC brought 54 insider dealing cases last year, involving 38 defendants.

The FSA is also disadvantaged in bringing culprits to justice by its relatively modest staffing levels in comparison with those at the SEC. The FSA and SEC each have about 3,800 staff. However, while about 1,300 employees at the SEC work on enforcement, only about 400 at the FSA do so. EU regulators recognise that they have a great deal of ground to make up. The December 2010 paper from the European Commission accepted the need to adopt consistent and effective legal sanctions across the whole of the EU. “The lack of consistency in Europe regarding enforcement action and fines for financial crime is coming to the fore,” says Reynolds. “The whole question of consistency of enforcement is on the regulators’ agenda, so I suspect we will see a levelling up around Europe in a short space of time. I expect we will see attempts made in the direction of standardised enforcement and fining.”

Prospects of progress

The three new European Supervision Authorities (ESAs), which began operations at the beginning of this year, will help. The European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA) were established as subsidiary authorities of the European Systemic Risk Board (ESRB), which also came into being last month.

Beyond Europe, Asian regulators are tightening their regimes against insider dealers. Last year, the Financial Services and Treasury Bureau of the Hong Kong Special Administrative Region Government launched a public consultation on the proposed codification of price-sensitive information in order to strengthen the penalty for insider dealing. “There has been a consensus toward financial penalty and disqualification of directorship,” says Kelvin Wong, a board member of the Hong Kong Stock Exchange and Chairman of Hong Kong’s Institute of Directors. “The proposal is expected to be submitted to the Legislative Council for approval early this year.” Insider dealing was made a criminal offence in Hong Kong in 2003. It is only since the 2008 financial crisis, however, that the Hong Kong Securities & Futures Commission (SFC) has been more vigilant in monitoring the activities of markets to protect Hong Kong as an international finance centre. The maximum penalty for insider dealing is ten years in prison and a fine of HK$10m (about £808,000). Hong Kong has secured more than ten convictions for insider dealing and recently successfully requested a court review after a defendant convicted of insider dealing in a proposed takeover was sentenced to 240 hours of community service. The penalty was increased to a four-month jail term and a fine of HK$210,000 ($26,600).

Following the case, Mark Steward, SFC Executive Director of Enforcement, said: “The SFC will continue the fight against market misconduct to ensure that ordinary investors can be confident in dealing in Hong Kong’s markets.” The Hong Kong move on the codification of price-sensitive information is important because of the need for international co-operation in policing insider dealing in a global market. The G20 is spearheading a push towards international collaboration among regulators via super-regulator IOSCO – the International Organisation of Securities Commissions. In order to become accepted as full signatories of its Multilateral Memorandum of Understanding Concerning Consultation, Co-operation and the Exchange of Information (MMoU), countries need to have made sufficient changes to their legal systems in order to enable them to work with counterpart regulators. Insider dealing is one of the areas in which this is becoming increasingly necessary. Just signing up to the MMoU is hardly likely to halt insider dealing, but it may be a necessary step in the right direction.

But while global regulators are increasing their efforts to police and prosecute insider dealing, it may not be enough. The FSA annually publishes statistics covering ‘abnormal pre-announcement price movements [APPMs]’ that occurred in the days before takeovers. The level of APPMs has grown steadily in the five years the FSA has reported and in 2009 was 30.6%. As the FSA points out, APPMs may not necessarily indicate insider dealing, but the numbers do question the effects of more severe policing by the regulator.

Indeed, in a survey carried out last year by the Chartered Institute for Securities & Investment, 61% of respondents felt the FSA was failing to make serious inroads into insider dealing. Regulators and firms can help prevent the problem by instituting tighter controls in the first place. The FSA says it is working in partnership with the industry to strengthen anti-market abuse systems and controls. And both the FSA and the SEC are keen to use publicity as a tool to increase the visibility of their actions and add to the deterrent effect of larger fines and criminal penalties. Making markets clean and fair is no easy business; there is much left to do.

Compensating the victims

Under Irish law, companies can claw back the profit made by insider dealers, and the offender must also compensate any other party to the impugned transaction who did not possess the same information.

Under the Companies Act 1990, the offender may also be liable to account to the company that issued securities for any profit he or she made on the transaction. The question of determining the profit has been left to the courts to decide.

In July 2007, Ireland’s Supreme Court found that Irish company DCC had inside information on Fyffes when it sold its stake in the company for €106m in 2000. Fyffes was awarded a €3.7m settlement from DCC, including its legal fees, with a further €3.4m to be paid by DCC to other institutional investors in Fyffes that sought damages.
Do the events of 2007 and 2009 represent a coming of age for the wealth management industry?

Private Wealth Management Conference
Haberdashers' Hall, London 17 March 2011

This year's Private Wealth Management conference will examine the key issues of client relationships, research and communication, combined with the latest economic, structural and product issues.

- Chair: Bruce Weatherill MCSI, CEO, Bruce Weatherill Executive Consulting
- Andrew Milligan, Chief Economist, Standard Life Group
- David Lough FCSI, Chairman, Heartwood Wealth Management
- Andrew Fisher, Chief Executive, Towry
- Richard Williams, Managing Director, MDRC

Further speakers to be confirmed

The speakers were FANTASTIC. Really enjoyed it. Would LOVE more of these.

Senior Compliance Manager, Standard Chartered Private Bank

Brilliantly organised. I found the content very informative and insightful.

Senior Relationship Manager, SCMB

To book your seat
call: +44 (0)20 7645 0680
email: clientservices@cisi.org
visit: cisi.org/onlinebooking

sponsored by

RAYMOND JAMES INVESTMENT SERVICES

full agenda: cisi.org/pwm11
All fall down?

The S&IR looks at how China’s inflated property prices, hidden bank lending and structural inflation drivers are creating a dangerous credit bubble

---

**Rentals prices in China’s eight largest cities are 39 times average salary levels, compared with 23 times in the US just before the housing crisis there**

market has stalled – it is still below its peak of August 2009 – but the housing bubble has shown no signs of a correction. Lombard Street Research in London estimates that property prices in Beijing now stand at 22 times the level of disposable income, and 18 times in Shenzhen, China’s fastest-growing city. During the Tokyo bubble of the 1980s, the equivalent ratio was eight times; prior to the sub-prime-triggered collapse in the US, the number was 6.4. Rental prices in China’s eight largest cities are 39 times average salary levels, compared with 23 times in the US just before the housing crisis there.

Asset price inflation is further fuelled by China’s managed currency regime, which prevents the renminbi from shifting by more than 0.5% against the dollar in any one day. This has seen large foreign capital flows into the country, and the Chinese Government can do little to curb inflation (see box, above right). Hikes in the interest rate – which hit 5.81% at the end of 2010 and is widely predicted by economists to increase in the first half of this year – risk turning huge numbers of non-performing bank loans toxic as borrowers fail to meet repayments. Institutions linked to local government authorities hold many of...
the picture looks even worse when you consider oversupply in the property market. There are currently about 64.5 million empty apartments and houses in China's urban areas, according to estimates based on electricity meter readings by the Chinese Academy of Social Sciences in Beijing. This is more than five times the 12 million figure that the US saw at the height of its sub-prime mortgage bubble. Mark Hart, who runs Texas hedge fund firm Corriente Advisors, estimated recently that China is currently creating 200 million square metres of property space each year, despite having 3.3 billion square metres of excess supply.

Hart, who successfully bet on the US housing crisis, launched his China Opportunity Master Fund last November to capitalise on the overpricing in China. He argues that widespread overcapacity gives lie to the argument that China has become the world’s major commodity-consuming nation. The country has, he claims, in fact been a net exporter of the major commodities: it consumed just 65% of the cement and 70% of the steel it has produced in the past six years. Excess steel capacity is currently 200 million tonnes, more than the combined total production for the European Union and Japan in 2010.

**Banking woes**

Property is not the only bubble: the balance sheets of China’s banks look increasingly shaky. Government statistics show a reduction in bank lending in 2010; officials claim that this is evidence of a successful Government attempt to cool the sector, but many question the accuracy of these figures. In an uncomfortable echo of the lead-up to the western banking crisis, it appears that unrecorded securitisation is taking up the slack.

“An increasing amount of credit is being shifted off Chinese banks’ balance sheets via informal securitisation – the repackaging of loans into investment products for sale to investors,” says Charlene Chu, Head of China Bank Ratings at Fitch Ratings in Beijing.

Chart 2: Constant quality price index for newly built private housing in 35 major Chinese cities

<table>
<thead>
<tr>
<th>Year</th>
<th>Jan07</th>
<th>Jul07</th>
<th>Jan08</th>
<th>Jul08</th>
<th>Jan09</th>
<th>Jul09</th>
<th>Jan10</th>
<th>Jul10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal index</td>
<td>13</td>
<td>12.6</td>
<td>11.5</td>
<td>12.2</td>
<td>10.6</td>
<td>10.1</td>
<td>9</td>
<td>8.5</td>
</tr>
<tr>
<td>Real index</td>
<td>10.3</td>
<td>10.3</td>
<td>10.3</td>
<td>10.3</td>
<td>10.3</td>
<td>10.3</td>
<td>10.3</td>
<td>10.3</td>
</tr>
</tbody>
</table>

Sources: Institute of Real Estate Studies, Tsinghua University

In July 2010, the Chinese Government banned all informal securitisation deals between trust companies and banks, but the practice continues, unreported. “Some banks actively engaged in transactions last year are showing up in 2010 data as minimally involved,” says Chu. “The bank’s own salespeople, responding to Fitch’s enquiries, state that business remains as strong as ever.”

Private placements of investment products by banks in order to glean funding for third-party companies is another route by which unrecorded lending is increasing. “Most of these are disclosed only to the Central Bank of the Republic of China,” Chu says. She estimates that as many as 40% of these deals went uncaptured in the first half of 2010, compared with fewer than 10% prior to the end of 2009. These obligations are not included anywhere in financial statements and therefore represent a hidden call on liquidity. China’s large banks may be able to meet these obligations, but smaller, less liquid institutions look vulnerable.

Another problem is that Chinese definitions of non-performing assets are lax. Hart believes that the level of Chinese financial sector bad loans would equal 96% of total bank equity if non-cashflow-producing assets owned by Local Investment Companies were recognised as non-performing.

**Structural inflation**

China’s inflationary problem goes deeper than overvalued housing. About 140 million people have migrated from the country’s rural areas to its cities in the past 20 years and UNICEF says another 300 million will follow suit in the next two decades. Quek Peck Lim, Chairman of Prime Partners in Singapore, notes that, to avoid a recurrence of the type of protests that led to the 1989 Tiananmen Square disaster, the Government must provide these economic migrants with jobs, housing and food. This means sustaining a healthy GDP growth rate of about 9% per annum (see Chart 3). But when a large part of this growth is export-led rather than driven by domestic consumers, it tends to push up prices in property and food. In 1989, food inflation in the month prior to Tiananmen Square was about 18% compared with the same month in 1988. Compare this with figures from January 2011, which show housing prices up by 4.5% and food prices, the main driver for inflation, up by 7.2%. Inflation is at 4.6%, but many analysts say it may rise to 6% in the coming months.

Chart 3: MSCI China A share index

Source: Bloomberg
Robert Stheeman, head of the Debt Management Office, helped raise £228bn for the Government last year, learns Hugo Cox

**THE UK’S GROWING deficit saw the Government borrow £228bn from bond markets in 2009–10, nearly four times what it had raised in 2008–09. But at a time when similar requirements on the part of other European economies – faced with a nearly identical economic outlook – saw borrowing costs spiral out of control and the fear of sovereign default infect bond markets, the yield on UK Government debt has remained curiously steady.**

A key part of the reason for this relatively healthy position lies on the second floor of a humbly appointed building in the City of London, sandwiched between Philpot Tandoori and a Hackett designer clothing outlet, just a stone’s throw from the head office of the Chartered Institute for Securities & Investment (CISI). From here, Robert Stheeman, Chief Executive of the Debt Management Office (DMO), oversees the job of raising Government finance. “The UK’s strength comes about because it has by far the longest average debt maturity of any country in the world,” he explains. At the end of September 2010, the average Government debt instrument (comprising gilts, the standard UK Government bond, inflation-linked bonds and Treasury bills) was due to mature 13.5 years from now. This period is nearly double that of second-placed France and Italy (6.8 years), and well ahead of Germany (6.6), Canada and Japan (6) and the US (whose 2008 figure was 4.3). While other European governments are issuing huge quantities of new debt when their obligations to repay old debt are just around the corner, investors in UK gilts can be confident that their issuer will not suddenly have to pay back huge sums to lenders with a prior claim on their cash. No wonder they are more confident in the UK’s creditworthiness as a borrower. Curiously, this benign state of affairs has come about more by accident than design. It derives from the well-established demand for long-dated gilts from the UK’s private pension fund sector, which has been around for longer, and is more developed, than any of its European counterparts. “Since pension fund managers want to match their liabilities with safe, long-dated assets,” explains Stheeman, “for more than 20 years, the UK Treasury has faced strong demand for long-dated gilts and inflation-linked bonds.” Stheeman’s office bookshelf suggests a balance of traditional and modern influences. *Loosing Control*, HSBC Group Chief Economist Stephen King’s assessment of the radical impact of emerging economies’ growing wealth on the developed world, nestles between *Dod’s Parliamentary Companion* and *The Diary of Sir Edward Walter Hamilton*, the influential 19th-century Treasury Secretary. But for a man whose role puts him at the heart of the UK’s financial establishment, Stheeman’s training was unconventional. “I went to Germany in my gap year and didn’t come back until 1986,” he says. Starting as a volunteer clerk at a local bank in Hamburg, he soon enrolled in Banklehre, a two-and-a-half-year on-the-job public training programme for the banking industry, before joining Deutsche Bank in 1986. Working at local branches taught him accounting, bookkeeping and banking theory. “People in this country feel obliged to go to university in order to get a job,” he observes. “In Germany, there is not the same expectation, in part because on-the-job training is so good.” In banking, he notes wryly, this also means that in Germany, unlike the UK, you can be confident that the bank teller to whom you’re paying in your cheque has a good understanding of the operational systems that will be responsible for processing it. Stheeman’s interest in debt began relatively early in his career, when he moved to Deutsche’s Frankfurt-based debt issuance department in 1986. He joined its London office two years later. In 2002, after 17 years at the German bank, he saw an advert for the post of Chief Executive of the DMO and decided to apply. “Moving to a new organisation in the public sector, as well as into a senior management role, was a difficult transition for me,” he says. These personal challenges were followed by the organisation’s toughest test: the financial crisis. Operational requirements doubled, while staff numbers grew by just a fifth, to 100. The DMO had to change its involvement in short-term money markets (see box, facing page), and its ‘uncovered auction’ of gilts in March 2009, where not all gilts on offer were sold, focused media attention on the organisation. The challenges galvanised the DMO and, one senses, defined Stheeman’s leadership. “Nothing is more motivating for an organisation than to be needed, and we had a clear message from the Treasury that we were more needed than ever before,” he says. “The staff have responded tremendously; their dedication and skill have been superb.” Those whose political survival depends on the UK’s financial competitiveness seem to appreciate the importance of the DMO and its singular leader. On their way to the next nerve-wracking CISI exam, the S&IR’s readers might spare its modest façade a glance.

**CV snapshot**

1979 – 1985 Regional Manager, Vereins- Und Westbank AG, Hamburg

Directing the Banklehrer trainee programme
What is the Debt Management Office?
The DMO is a semi-autonomous executive agency that is physically separate from, but legally part of, the Treasury. It was set up in 1998, following the Government’s decision to give the Bank of England responsibility for monetary policy, with the corollary that responsibility for debt management was taken from the Bank. This removed the risk of a conflict of interest generated by housing debt management and monetary policy under the same roof.

The DMO has four areas of responsibility: it is the Government’s issuer of gilts; it is responsible for managing the Government’s cash position; it lends to local authorities via the Public Works Loan Board; and it manages the investments of a number of Government funds via the Commissioners for the Reduction of the National Debt.

Government debt management policy is built on two pillars set out in a 1995 review. Firstly, issuance should be based on the principles of predictability and transparency, because the market values these characteristics. Secondly, the objective should be “to minimise, over the long term, the costs of meeting the Government’s financing needs, taking into account risk”. While Government ministers own overall policy, the DMO provides delivery. This means that, prior to the Budget, the DMO advises the Treasury on how Government forecasts of the financing requirement should be met, such as the appropriate maturity structure of debt sales and which mix of instruments to use. The DMO’s financing remit, given by Treasury ministers, then stipulates how much short- (less than seven years), medium- (seven to 15 years) and long-dated (15 or more) conventional debt is to be issued, as well as the proportion of index-linked issuance and planned changes in the level of the Treasury bill stock.

While the DMO’s debt issuance responsibility attracts the most attention, its responsibility for the Government’s cash management provides it with an important role in the sterling money markets. The Lehman collapse changed how this function worked. When inter-bank lending effectively dried up following the bank’s failure, activity in the term money market, where money is lent for a period of one or several months, also fell. The DMO had used the term ‘money market’ widely to raise and lend short-term funds in its cash management capacity. These developments meant that the DMO had to shift more to the overnight market, where the majority of the short-term lending still takes place. Shorter duration of the DMO’s short-term lending activity led to an increase in the number and total value of transactions over the course of the year, from £1tn before the crisis to about £4tn now.
Weighing up the costs

The FSA’s revised Remuneration Code is ringing major changes. As Richard Willsher finds, firms will need to act quickly in order to meet the requirements.

New regulations came into effect on 1 January this year that herald a major shake-up in the way in which senior financial services executives are remunerated.

The FSA’s Remuneration Code is influenced by guidelines circulated last December by the Committee of European Banking Supervisors (CEBS – now the responsibility of the European Banking Authority; see box, above right). It imposes tight restrictions on what is paid to employees in financial services. It will, for example, see the cash component of senior bankers’ and traders’ pay capped at 20% of the overall award, with the remainder to be paid in deferred share awards.

Yet the industry has a lot of concerns about the Code. The first problem is that, in the absence of global agreement on pay, it could make UK firms uncompetitive. “Until there is a genuinely global consensus on pay in financial services, the challenge for policy makers will be to ensure the UK continues to attract this valuable business,” noted British Bankers’ Association spokesman Brian Mairs in a statement issued on 11 January.

The difficulty is that branches of UK firms abroad will also have to apply...
The cash component of senior bankers’ and traders’ pay will be capped at 20% of the overall award

The Code. PricewaterhouseCoopers explains that, since it applies to UK branches of firms whose home state is outside of the European Economic Area (EEA), “UK groups should apply the Code globally to all their regulated and unregulated entities, including in a non-EEA jurisdiction.” Branches of EU firms will therefore be competing with local firms - which may not be bound by a remuneration code - for the same employees.

In the US, the Federal Reserve, the Securities and Exchange Commission, the Federal Deposit Insurance Corporation and other regulators are working on remuneration rules, but they are far from finalised. In Singapore and Hong Kong, regulation may be even further away. “[The Code] will mean that banks operating in Europe, and European banks operating elsewhere in the world, will be at a competitive disadvantage,” says a spokesman for the Association for Financial Markets in Europe. The other side of the Code affects non-EU firms with branches in the UK or Europe. For individual firms headquartered in jurisdictions where remuneration regulation has not yet taken effect, employees in similar roles, but based within and outside of the EU, will likely have different pay structures. This risks causing friction within organisations.

Scope in the UK

Just whom the UK Code covers, and to what extent, is another thorny issue. It’s estimated that it affects 2,700 UK firms, including a large number of asset managers, plus some firms engaging in corporate finance and venture capital, providers of financial advice and brokers. Despite large swaths of financial services institutions falling within the scope of the Code, however, the degree to which they need to apply provisions of the Code is affected by the tiering.

The principal targets of the Code are tier one firms – banks and building societies with capital resources of more than £1bn – and tier two firms, principally smaller banks and building societies with capital resources of between £50m and £1bn. Tier three covers firms whose licence and capital requirements are exempted from full compliance, while tier four comprises limited licence firms whose licence and capital requirements prevent them from falling into tiers one or two. Tier four firms are mostly building societies, credit unions and investment firms as defined in Capital Requirements Directive 2010/76/EU (CRD3).

Of the 2,700 firms, 26 fall under tier one, roughly 200 under tier two, about 300 under tier three and the remainder, more than 2,000, under tier four. The greatest uncertainty, says Tim Wright of PricewaterhouseCoopers, surrounds tier two and tier three firms, many of which are unsure into which tier they fall. Most still have a lot of work to do to satisfy the regulator that they are doing what is required of them.

The slowpace of adjustment in these firms is a serious problem, argue Kate Brearley, Head of Employment, and Jeremy Glover, Head of Employment Incentives, at City law firm Stephenson Harwood. They say that some firms have yet to carry out a thorough audit of the remuneration arrangements for Code staff. In some cases, the linkage between performance and remuneration may still not be sufficient to pass muster with the FSA.

Private firms and partnerships

There are also question marks for partnerships such as private equity, accountancy and consulting firms. The Code raises tax issues over rewards that come in the form of shares or share-like instruments, where the firms involved are not quoted on a public market or are partnerships. For partnerships, the payment of partners’ profit shares could be a thorny issue due to the Code’s deferral provisions. While all but the largest of these firms are tier four, they may well need to explain to the regulators why they think they should not be caught by deferral. Alternatively, they may need to rethink how profit allocation works within their firms.

Alternative Investment Fund Managers Directive (AIFMD)

Hedge fund managers and private equity firms may face additional rules governing pay under the AIFMD, adopted by the European Parliament last November. The details of the directive, which will take effect from 1 January 2013, must still be fleshed out, but it includes a two-page annex on remuneration. The AIFMD covers hedge funds, private equity firms, infrastructure investment firms and real estate investment firms. Of this group, hedge funds are covered by the FSA Code, though most are likely to be considered tier four organisations, alongside most mainstream fund managers, due to the limited nature of their activities. Larger firms with alternative investment divisions are likely to be subject but it is unclear whether private equity firms will be covered (see main article, right).

EBA guidelines on remuneration policies and practices

The final European Banking Authority (EBA – formerly CEBS) guidelines were issued on 10 December 2010. They address remuneration policies in the financial sector and apply specifically to credit institutions and investment firms as defined in Capital Requirements Directive 2010/76/EU (CRD3).

There were no substantial changes from the previous guidance issued in October. They did, however, provide clarity on ‘proportionality’, the degree of compliance by firms according to which tier they fall in. They addressed pay structures in detail, along with issues of risk and implementation.

All firms need to comply with the terms of the EBA guidelines, in particular on deferral periods for bonuses (three to five years), the level on deferred pay (40% to 60%) and levels of pay given in the form of shares or share-like instruments (50%). The EBA also issued strict terms on guaranteed bonuses, which should not exceed one year.

Settle for less

Target2Securities (T2S), the streamlining of European securities settlement, will have far-reaching effects when it goes live in 2014.

Hugh Simpson MCSI urges firms to be prepared

Settlement is the final step in every securities market transaction - the process by which the buyer gets the securities he has bought and the seller is paid. Yet there is widespread agreement that settling these transactions across Europe is too expensive and inefficient.

Inside individual countries, settlement is usually efficient and cheap. But as soon as investors start to move across borders, they come up against significant barriers: the need to operate through different Central Securities Depositories (CSDs) - operating with different market practices and different standards - and the need to maintain separate pools of liquidity and collateral to support settlement. Whereas firms in the United States operate in a single, large domestic market, in Europe they have to work across many smaller domestic markets. As a result, Europe lags a long way behind the United States in terms of both the volume and cost of transactions.

T2S will create a single borderless market for securities settlement in Europe. It is a project for the continent as a whole, not just the eurozone, and has the support of EU governments through the Economic and Financial Affairs Council (ECOFIN). The investment to build and support T2S – through to its live date in September 2014 and beyond – is being provided by the Eurosystem (consisting of the European Central Bank and the national central banks of countries in the eurozone), which is leading and financing the project and will operate T2S on a not-for-profit basis. Work is already well under way to build the software and infrastructure and prepare for testing and migration.

In addition to developing the technical platform, a key objective of the T2S programme is to stimulate harmonisation, the theory being that the full benefits of a common infrastructure will be realised only if it operates within a set of common market practices.

Having a single settlement platform for Europe is expected to reduce settlement costs, particularly for what are today cross-border trades. T2S will create a single European pool of assets that can be settled at low cost, in real time, and in an extremely reliable and legally robust system. This creates opportunities for CSDs to keep all of their clients’ securities positions in T2S. Each securities account held in T2S will be attributable to only one CSD. CSDs will maintain legal relations with their customers, including custody and notary functions. T2S has legal relations only with CSDs, and not with banks, which access T2S services via their chosen CSD. Similarly, T2S will maintain dedicated central bank money accounts representing a bank’s claims in central bank money on that client’s national central bank (NCB). Each account may be used to settle transactions relating to the client’s security accounts in one or more CSDs. This cash account structure will foster efficiency improvements for clients that use more than one CSD.
and market participants to develop their businesses in new ways.

**What will T2S do?**

T2S will be a service to CSDs, such as Euroclear UK & Ireland. As shown in Figure 1, it will provide them with the technical platform and services to operate core securities accounts according to the existing contractual relationships with their participants. It will also provide the means to settle the cash side of transactions across central bank accounts directly on the T2S platform, an important step in reducing risk. CSDs, in turn, will continue to provide additional services – such as asset servicing – for their clients on their own platforms.

Trading and investing firms will still open accounts with one or more CSDs. They will also need an account with a central bank for each currency in which they will be settling. If they are not eligible to open an account themselves, they will need an arrangement with a bank that will provide them with settlement liquidity. In most cases, firms will continue to send their settlement instructions to their local CSD for matching and settlement and receive back notifications of progress. The CSD, however, will route these instructions to T2S for settlement, so that it will no longer matter whether or not the counterparty to the trade is a member of the same CSD. There will also be an option, likely to appeal mainly to firms that operate across multiple CSDs, to send instructions directly to T2S.

**What will it cost?**

T2S will operate on the cost-recovery principle, meaning that the Eurosystem expects to recover the investment in T2S and the running costs over time, neither making a profit nor subsidising it. Recognising the need for an element of certainty to help with planning, the Governing Council has already set the tariff structure for T2S, even though it will not start operations until 2014. The price for a standard delivery-versus-payment (DVP) transaction will be only €0.15 per side, which will be maintained until the end of 2018 (subject to there being no substantial adverse change). The intention is to lower settlement fees further after 2018, but even in the worst case scenario, settlement fees will not increase by more than 10% a year for the following four years. The price set by T2S will be subject to additional charges by CSDs for the services they provide on top of the T2S service. As CSDs are able to reshape their systems around the functionality provided by T2S, however, these additional charges should be less than their current settlement fees – and should fall significantly as CSDs become able to reduce their costs.

**What now?**

A number of important decisions will be taken in the coming months. Crucially, the list of countries that will be connecting to T2S must be fixed. T2S has been designed with multi-currency capabilities. It is clear that settlement in euros will take place in T2S, but for individual countries the decision whether or not to adopt T2S requires agreement among their market participants, CSD and central bank. Seven countries – the UK, Denmark, Iceland, Norway, Poland, Sweden and Switzerland – are currently in discussion with the Eurosystem about making their securities and currency available for settlement in T2S. Discussions are underway between the Bank of England, Euroclear and UK market participants over the advantages and disadvantages of participating in T2S. Firms with an international business might appear to benefit more from participating in T2S and, in the short term, a decision not to participate might make little difference domestically. In the longer term, however, pricing for the sterling market would likely reflect the fact that it was using isolated infrastructure rather than a shared European platform, and the UK market would lose its influence over the future direction of European harmonisation. Whatever the outcome of the discussions, firms in all sectors need to start thinking now about its implications for their business. Whether they are providers of services or consumers, T2S is going to change the landscape and it is best to be prepared.

**The full benefits of a common infrastructure will be realised only if it is operated within a set of common market practices**

Hugh Simpson is Adviser for T2S to the European Central Bank.
YOU ARE a director of Rokeles, a mid-sized securities firm, and, while chatting at the company’s Christmas party, you overhear Charlie and Eamon, two senior managers, commenting in a knowing way that Adam, an assistant director in the firm’s Corporate Finance team, is not at the event. Adam apparently prefers working late at the offices of Trippers, a large travel company that is a prospective new client of Rokeles, to attending the Christmas party, always a high-profile event for members of staff.

Charlie suggests that Adam spends more time at Trippers’ office than he does at his own and seems to be close friends with Sian, the Finance Director of Trippers. Eamon responds that he wouldn’t mind working more closely with Sian, to which Charlie says that neither would he, but his wife might not like it! Sian is apparently responsible for planning Trippers’ corporate strategy and is also influential in the appointment of the firm’s external advisers.

Although you regard what you have heard as typical party banter, you recall passing Adam and Sian on your way home one evening and wonder whether there might be some substance to the gossip.

The following week, at the Rokeles board Christmas lunch, Robin, the Corporate Finance Director, announces that she has just heard that Trippers intends to appoint Rokeles as its corporate finance adviser and will make a public announcement the following day. The board congratulates her and the Chief Executive says that he hopes it represents the start of an expansion of the Corporate Finance team.

Hearing this reinforces your concern that there may be some truth in what you overheard about Adam and Sian.

You meet with Robin to raise
Within Rokeles, the award of the Trippers mandate raises a number of questions:

- Should you (Rokeles) investigate whether Adam is in a relationship with Sian and determine the precise nature of her role within Trippers?
- Should you question how the assignment with Trippers was won?
- Should you discuss this matter with Sian and that the Trippers mandate was somehow improperly gained or awarded?
- Should you investigate whether a relationship exists between Adam and Sian?

Robin vigorously defends Adam, saying that she sees no reason why, purely on the basis of overheard gossip, Rokeles should assume that Adam was more than professionally involved with Sian and that the Trippers mandate was somehow improperly gained or awarded. Robin adds that it hardly encourages her team if the firm’s response to success is to question how it was achieved.

In the face of Robin’s spirited response, you decide that it would be inappropriate to view what you had heard in an unfavourable light and say that you will think no more about it.

Returning to your office in the New Year, your PA reminds you that you will be chairing the annual promotions meeting the following week. She has put all the information packs on your desk and, when you look through them, you see that one relates to Adam. Adam’s pack contains a number of references to his integrity, diligence, hard work and enthusiasm to grow the business, as well as feedback from a number of clients, including Trippers, where the testimonial is signed by Sian. Although the business case supporting Adam’s promotion is not based solely on the fact that the senior Rokeles staff member working with Trippers, that is one of the major supporting factors and, with the testimonial signed by Sian, your concerns are heightened.

At this point, you speak to Robin and suggest that the matter now be referred to the Chief Executive, who should decide whether or not to take any further action. Having arranged a meeting with the Chief Executive, you tell him of your concern and, while Robin does not openly challenge your view, she suggests to the CEO that it is crucial the firm adopts a proper sense of perspective about this matter.

**Internal considerations**

In response, the CEO says that the most important point for Rokeles is that it is seen to have acted with integrity at all times and that if it is necessary to ask Adam about his relationship with Sian in order to establish this, so be it. He adds that if Adam is unable to accept this, then clearly he is not ripe for further promotion. The CEO then says that, irrespective of the outcome of discussions with Adam, he will speak to Trippers’ CEO as it is essential that the firm is aware of Rokeles’ concerns and that it can have complete confidence in how the mandate was awarded.

You and Robin are told to discuss your concerns with Adam as soon as possible, so that the CEO can be fully briefed when he speaks to Trippers. You arrange a meeting for that afternoon. At the meeting, Robin tells Adam of your concerns without identifying the source and Adam appears somewhat bemused, asking what extent he is expected to report his private life to Rokeles.

He says that, while he did spend a lot of time at Trippers working late with Sian, whom he reminds you is Trippers’ Finance Director, he did this because her job demands during the day made contact difficult. Adam asks whether you would take the same attitude if Trippers’ Finance Director had been a man. You reply that it would depend on the circumstances and that, had he received a testimonial similar to that given by Sian, then quite possibly you would have.

Your meeting having ended with a degree of discomfort on both sides, you report to the CEO, who says that he will now speak to Trippers’ CEO and let you know what transpires.

**An external view**

Later that day, the CEO calls and tells you that he has spoken to Trippers’ CEO and had a rather uncomfortable time. He reported that he had opened the conversation saying that he was calling in a spirit of openness because of some rumours circulating at Rokeles that he felt Trippers should be aware of. Your CEO went out of his way to stress that, although he was not suggesting anything improper in the behaviour of any of Rokeles’ or Trippers’ employees, both parties needed to be aware of any talk that might affect their relationship, and there was gossip circulating within Rokeles. Trippers’ CEO thanked him and said that, had he been Sian, he might have found it offensive that Rokeles appeared to consider that any strong business relationship involving a man and a woman automatically would result in decisions being made for emotional, rather than business, reasons. He added that, although the decision to appoint Rokeles was not made by Sian alone but by Trippers’ Executive Committee, such was his confidence in Sian that he would have been happy to accept her sole recommendation. He concluded by saying that he hoped Trippers would not regret appointing Rokeles.

**Outcome**

Your CEO says that you did the right thing in bringing this matter to his attention and it does provide a salutary lesson about how perceptions change. Situations that at one time would have been viewed with extreme suspicion and alarm are now accepted as being part of normal working relationships and should be treated as such.

Where there is any cause for concern, however, the right thing to do must be to investigate tactfully and appropriately to ensure that all parties are aware of your concerns. In this instance, both Adam and Sian had a responsibility to ensure that their actions did not give rise to a perception of a conflict of interest and, in that respect, they may be judged to have been at fault.

What this situation also highlights is the danger of establishing relationships relying principally on a single point of contact. A properly structured relationship would see close contacts established at both senior and junior levels and, had this been done when the Trippers relationship was being developed, it would have helped meet the management dictum of ‘no surprises’.

As to the question of whether Adam should be promoted, you decide!

**Both parties needed to be aware of any talk that might affect their relationship, and there was gossip circulating**

**Over to you**

What would you do if you were faced with such a dilemma? Have you been in a similar situation? Let the CSI know how you would have handled it – or how you resolved a similar matter yourself. Please email your response to richard.mitchel@csi.org or post a comment online at csi.org/s&ir
and demonstrate continuing learning.

The CISI’s Professional Refresher elearning tool enables candidates to remain up to date with regulatory issues and changes, maintain compliance and demonstrate continuing learning.

Price: £75 per user

PRICE: £75

This product currently consists of about 20 modules, including:

• anti-money laundering
• corporate actions
• investment principles & risk
• market abuse
• professional taxation
• training & competence
• the UK regulatory structure.

The product currently consists of about 20 modules, including:

• Financial Markets
• Portfolio Construction Theory in Wealth Management
• Applied Wealth Management.

There are new workbooks for each of these units, with corresponding exam dates in June.

Price: £75

Price: £75

Price: £75

External specialists

The CISI relies on industry practitioners to provide knowledge and expertise for its exams and workbooks as workbook authors and reviewers, item (question) writers, item editors and exam panel members. All of them receive benefits for their involvement.

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

To register your interest, please contact Iain Worman at iain.worman@cisi.org on +44 (0)20 7645 0609 or complete the application form available via www.sli.org.uk/SII/WEBg/sli_files/Qualifications/External%20Specialists/ES_Application.pdf

To meet these needs, the CISI has launched three new workbooks for exams from 22 March 2011 to 21 March 2012.

Three New Workbooks

- Wealth Management
- Principles of Financial Regulation
- Risk in Financial Services

Each of these workbooks costs £75, and they cover a wide range of topics, including:

Wealth Management

•  taxation and trusts.
•  other financial products
•  financial services regulation
•  investment funds
•  derivatives
•  bonds
•  equities
•  financial assets and markets
•  the economic environment

Risk in Financial Services

•  the FSA Conduct of Business Sourcebook/Client Assets Sourcebooks.
•  associated legislation, regulation and EU directives
•  the Regulatory Environment
•  the Financial Services and Markets Act 2000
•  associated legislation, regulation and EU directives
•  FSA Conduct of Business Sourcebook/Client Assets Sourcebooks.

International Introduction to Securities & Investment

•  enterprise risk management.
•  corporate governance and risk oversight
•  liquidity risk
•  corporate governance and risk oversight
•  enterprise risk management.

External specialists

The CISI relies on industry practitioners to provide knowledge and expertise for its exams and workbooks as workbook authors and reviewers, item (question) writers, item editors and exam panel members. All of them receive benefits for their involvement.

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

To register your interest, please contact Iain Worman at iain.worman@cisi.org on +44 (0)20 7645 0609 or complete the application form available via www.sli.org.uk/SII/WEBg/sli_files/Qualifications/External%20Specialists/ES_Application.pdf

To meet these needs, the CISI has launched three new workbooks for exams from 22 March 2011 to 21 March 2012.

Three New Workbooks

- Wealth Management
- Principles of Financial Regulation
- Risk in Financial Services

Each of these workbooks costs £75, and they cover a wide range of topics, including:

Wealth Management

•  taxation and trusts.
•  other financial products
•  financial services regulation
•  investment funds
•  derivatives
•  bonds
•  equities
•  financial assets and markets
•  the economic environment

Risk in Financial Services

•  the FSA Conduct of Business Sourcebook/Client Assets Sourcebooks.
•  associated legislation, regulation and EU directives
•  the Regulatory Environment
•  the Financial Services and Markets Act 2000
•  associated legislation, regulation and EU directives
•  FSA Conduct of Business Sourcebook/Client Assets Sourcebooks.

International Introduction to Securities & Investment

•  enterprise risk management.
•  corporate governance and risk oversight
•  liquidity risk
•  corporate governance and risk oversight
•  enterprise risk management.

External specialists

The CISI relies on industry practitioners to provide knowledge and expertise for its exams and workbooks as workbook authors and reviewers, item (question) writers, item editors and exam panel members. All of them receive benefits for their involvement.

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

To register your interest, please contact Iain Worman at iain.worman@cisi.org on +44 (0)20 7645 0609 or complete the application form available via www.sli.org.uk/SII/WEBg/sli_files/Qualifications/External%20Specialists/ES_Application.pdf

To meet these needs, the CISI has launched three new workbooks for exams from 22 March 2011 to 21 March 2012.

Three New Workbooks

- Wealth Management
- Principles of Financial Regulation
- Risk in Financial Services

Each of these workbooks costs £75, and they cover a wide range of topics, including:

Wealth Management

•  taxation and trusts.
•  other financial products
•  financial services regulation
•  investment funds
•  derivatives
•  bonds
•  equities
•  financial assets and markets
•  the economic environment

Risk in Financial Services

•  the FSA Conduct of Business Sourcebook/Client Assets Sourcebooks.
•  associated legislation, regulation and EU directives
•  the Regulatory Environment
•  the Financial Services and Markets Act 2000
•  associated legislation, regulation and EU directives
•  FSA Conduct of Business Sourcebook/Client Assets Sourcebooks.

International Introduction to Securities & Investment

•  enterprise risk management.
•  corporate governance and risk oversight
•  liquidity risk
•  corporate governance and risk oversight
•  enterprise risk management.

External specialists

The CISI relies on industry practitioners to provide knowledge and expertise for its exams and workbooks as workbook authors and reviewers, item (question) writers, item editors and exam panel members. All of them receive benefits for their involvement.

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

To register your interest, please contact Iain Worman at iain.worman@cisi.org on +44 (0)20 7645 0609 or complete the application form available via www.sli.org.uk/SII/WEBg/sli_files/Qualifications/External%20Specialists/ES_Application.pdf

To meet these needs, the CISI has launched three new workbooks for exams from 22 March 2011 to 21 March 2012.

Three New Workbooks

- Wealth Management
- Principles of Financial Regulation
- Risk in Financial Services

Each of these workbooks costs £75, and they cover a wide range of topics, including:

Wealth Management

•  taxation and trusts.
•  other financial products
•  financial services regulation
•  investment funds
•  derivatives
•  bonds
•  equities
•  financial assets and markets
•  the economic environment

Risk in Financial Services

•  the FSA Conduct of Business Sourcebook/Client Assets Sourcebooks.
•  associated legislation, regulation and EU directives
•  the Regulatory Environment
•  the Financial Services and Markets Act 2000
•  associated legislation, regulation and EU directives
•  FSA Conduct of Business Sourcebook/Client Assets Sourcebooks.

International Introduction to Securities & Investment

•  enterprise risk management.
•  corporate governance and risk oversight
•  liquidity risk
•  corporate governance and risk oversight
•  enterprise risk management.

External specialists

The CISI relies on industry practitioners to provide knowledge and expertise for its exams and workbooks as workbook authors and reviewers, item (question) writers, item editors and exam panel members. All of them receive benefits for their involvement.

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

To register your interest, please contact Iain Worman at iain.worman@cisi.org on +44 (0)20 7645 0609 or complete the application form available via www.sli.org.uk/SII/WEBg/sli_files/Qualifications/External%20Specialists/ES_Application.pdf

To meet these needs, the CISI has launched three new workbooks for exams from 22 March 2011 to 21 March 2012.

Three New Workbooks

- Wealth Management
- Principles of Financial Regulation
- Risk in Financial Services

Each of these workbooks costs £75, and they cover a wide range of topics, including:

Wealth Management

•  taxation and trusts.
•  other financial products
•  financial services regulation
•  investment funds
•  derivatives
•  bonds
•  equities
•  financial assets and markets
•  the economic environment

Risk in Financial Services

•  the FSA Conduct of Business Sourcebook/Client Assets Sourcebooks.
•  associated legislation, regulation and EU directives
•  the Regulatory Environment
•  the Financial Services and Markets Act 2000
•  associated legislation, regulation and EU directives
•  FSA Conduct of Business Sourcebook/Client Assets Sourcebooks.

International Introduction to Securities & Investment

•  enterprise risk management.
•  corporate governance and risk oversight
•  liquidity risk
•  corporate governance and risk oversight
•  enterprise risk management.
Diary

Events to attend over the coming months

### Conferences

The ideal way to gain practical insight into the latest issues from key regulators and practitioners and to network with industry peers.

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Venue</th>
<th>Sponsor</th>
</tr>
</thead>
<tbody>
<tr>
<td>16 February</td>
<td>An Inspector Calls – A Run Through of the Powers of the FSA, HMRC, SFO and BIS</td>
<td>Reynolds Porter Chamberlain, Tower Bridge House, St Katherine's Way, E1</td>
<td>Raymond James Investment Services</td>
</tr>
<tr>
<td>21 February</td>
<td>Risk Governance – Designing the Board's Role</td>
<td>America Square Conference Centre, 1 America Square, 17 Crosswall, EC3</td>
<td></td>
</tr>
<tr>
<td>24 February</td>
<td>The ABC of the Bribery Act</td>
<td>America Square Conference Centre, 1 America Square, 17 Crosswall, EC3</td>
<td></td>
</tr>
</tbody>
</table>

### London Events

- **16 February** An Inspector Calls – A Run Through of the Powers of the FSA, HMRC, SFO and BIS
  Reynolds Porter Chamberlain, Tower Bridge House, St Katherine's Way, E1
- **21 February** Risk Governance – Designing the Board’s Role
  America Square Conference Centre, 1 America Square, 17 Crosswall, EC3
- **24 February** The ABC of the Bribery Act
  America Square Conference Centre, 1 America Square, 17 Crosswall, EC3

### Professional Courses

**Venue:** London unless otherwise stated

<table>
<thead>
<tr>
<th>Date</th>
<th>Course</th>
<th>Venue</th>
<th>Sponsor</th>
</tr>
</thead>
<tbody>
<tr>
<td>16 February</td>
<td>Securities*</td>
<td>Standard &amp; Poor’s, 20 Canada Square, Canary Wharf, El4</td>
<td></td>
</tr>
<tr>
<td>3 March</td>
<td>Training Competence and Managing Expertise in a Regulated Environment</td>
<td>Deutsche Bank, Pier Head, Liverpool</td>
<td></td>
</tr>
<tr>
<td>15 March</td>
<td>Introduction to Financial Markets</td>
<td>Deutsche Bank, Pier Head, Liverpool</td>
<td></td>
</tr>
<tr>
<td>23 March</td>
<td>Operational Risk: Taking it to the Next Level</td>
<td>Deutsche Bank, Pier Head, Liverpool</td>
<td></td>
</tr>
<tr>
<td>24 March</td>
<td>Pensions and Retirement Planning* (Venue: Leeds)</td>
<td>Deutsche Bank, Pier Head, Liverpool</td>
<td></td>
</tr>
</tbody>
</table>

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

### Regional Events

- **16 February** Socially Responsible Investing
  Jersey
  Celestial North, The Royal Yacht, Weighbridge, St Helier Jersey
- **17 February** Investing in Emerging Markets
  Liverpool & North Wales
  Deutsche Bank, Pier Head, Liverpool
- **17 February** How UK Resident Individuals, Trusts and Corporates Are Subject to UK Tax
  Manchester & District
  TBC
- **18 February** Today’s Economy and Tomorrow's Challenges/Annual General Meeting
  East Midlands & Lincoln
  TBC
- **4 March** Annual Dinner
  Jersey
  L’Horizon Hotel, St Brelade Bay, Jersey
- **16 March** Economic Forecast
  Guernsey
  Old Government House Hotel & Spa, St Ann’s Place, St Peter Port, Guernsey

Attendance at CPD events is free to all Institute members as part of your membership benefits.

Bookings for all events, except dinners and FCSI masterclasses, can be made online at cisi.org.

For further information on London CPD seminars, or to obtain your login information in order to book online, please contact Ged O’Mara on +44 (0)20 7645 0655 or email cdevents@cisi.org.

For further information on regional CPD events, please call Hannah Steele on +44 (0)20 7645 0648 or email region@cisi.org.

Attendance at CPD events and conferences and training courses earns you active learning hours in the CISI CPD scheme. Hours are added automatically to your log after attendance at CISI events.

For details on regional social events, including annual dinners and luncheons, call Alexandra Blunden on +44 (0)20 7645 0717 or email regionalsocial@cisi.org.

CISI members can now attend any CISI conference for just £199 (non-members £399). For further details, visit cisi.org, call +44 (0)20 7645 0680 or email clientservices@cisi.org.

**CONFERENCE SPONSORSHIP**

If you would like to raise your profile among CISI members and be associated with the excellence and integrity promoted by the Institute, you might like to consider taking up one of the sponsorship or exhibition opportunities at a conference.

For more information, please contact Fran Murrells, Head of Professional Development Events, on +44 (0)20 7645 0725 or email fran.murrells@cisi.org.
**Professional interest forums**

**Annual Professional Interest Forum Elections 2011**

Are you interested in joining one of the seven committees that run sessions of the CISI’s professional interest forums (PIFs)? Annual elections for all of the committees will take place in February and March.

The committees work with Institute staff to plan forthcoming events, identify issues of interest and source speakers. They usually meet for an hour before or after the main forum sessions – four to six times a year – and members receive CPD hours for time spent in meetings.

The elections help to ensure that the committees have a balance of new and experienced professionals, and that they continue to generate fresh ideas. Information on the nomination procedure and deadlines will be circulated by email to members of each PIF.

If you are interested in nominating yourself for election to one of the forum committees, you can email pifs@cisi.org to request further details. The Institute welcomes nominations from CISI PIF members of all backgrounds and levels of seniority, although normally candidates will have attended several forum meetings in the past.

Results will be announced by Friday 18 March. The first meeting of the new committees will be held in, or soon after, April. At the first meeting, the groups will nominate a chairman and either one or two deputy chairmen.

**Membership admissions and upgrades**

**Conferences/training courses discount:** Fellows 35%; Members 30%; Associates 20%. Extra training courses discount: make two bookings together and get a 10% discount; three bookings together, a 15% discount; four or more bookings together, a 20% discount.

Visit cisi.org, call +44 (0)20 7645 0680 or email clientservices@cisi.org for more information.

---

**Retail Distribution Review Roadshows**

1 March
West Country
Charles Stanley, Broadwalk House, Southernhay West, Exeter

1 March
South Coast
Village Hotel, Wessex Fields, Deansleigh Road, Bournemouth

1 March
Scotland
Brewin Dolphin, 48 St Vincent Street, Glasgow

2 March
Scotland
Brewin Dolphin, 7 Drumsheugh Gardens, Edinburgh

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

9 March
Northern Ireland
Ulster Reform Club, 4 Royal Avenue, Belfast

8 March
Liverpool & North Wales
Deutsche Bank, Pier Head, Liverpool

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

10 March
North East
TBC

10 March
Yorkshire
Cosmopolitan Hotel, 2 Lower Briggate, Leeds

16 March
Bristol, Bath & South Wales
Barclays Wealth, 40-42 Queen Square, Bristol

16 March
East Midlands
TBC

16 March
Manchester & District
TBC

22 March
East Anglia
NW Brown, Richmond House, 16-20 Regent Street, Cambridge

23 March
London
CISI, 8 Eastcheap, London EC3

---
Membership admissions and upgrades continued...

UBS
Brian O'Connor
Richard Persona
Nicholas Seth Spillikin
Michael Winson
UAE University
Devin Nkoma
Walker Crisps
Simon Lambert
WH Ireland
Abney Holligan
Williams de Broë
Charles Heaton
Others
Dayana Babarinudi
Christopher Cowley
Kieron Hodgson
Nikolay Johnnetov
Josphat Njuru Jamleck
Michael Kew
Qian Le
Polyvorg Nyungu Kiiža
Elizabeth Ogonegbu
Andrew Petit
Luke Petit
Donna Stevens
Marianne Weller

ACSI
ABN AMRO Bank
Nicola Fernandes
Adam & Co
Michael Gore
Kathleen McCibbon
ADVFN
Raymond Downer
John Williams
Aegon
Alastair Seaton
Ashburton
Anthony Trixeira
Ashmore
Brian Johnson Calleja
AXA
Helen Wittaker
Bank of Tokyo
Zulfiqar Ali
BankMuscat
Fatma Al Lawati
Barclays
Brendan Maguire
Stuart Millan
Oufounumniy Abolade Oluide
BATS Trading
Michael Newell
BDO
Laura Firth
Bedrock
Toby Main
BNP Paribas
Krishna Agili
Svetlana Angelova
David Bui
Cameron Bunnell
Ser Vuin Chin
Heather Crichton
Nicholas Darke
Kelli Goode
Hayley Henderson
Rishi Lakhanpal
Fraser Law
Graeme Macaulay
Fraser Ralphston
Grace Reid
Brewin Dolphin
Ruth Andrew
Jeffrey Ball
Samuel Howe
Wendy Stanley
BRI
Oliver Mustin
Brown Shipley
David Currier
Capita
Jane Brennan
Neil Peachey
Cassidy Coutts Donald & Partners
Richard Palmer
CCLA
Russell Hunt
Tom Musson
Centrica
Alkaterini-foteni Velnenta
Charles Stanley
Camilla Brierley
John Harrison
Karri Vouyi
C. Hoare & Co
James Hoare
CSI

Evolution
James Blaize
Casper Kaars-Sijpesteijn
Shaun McCann
Family Investments
Elizabeth Gasson
Paul Hazel
Liam Nunan
First Global Knowledge Centre
Fathima Fahal Fazuledeen
GHC
Louise Buckler
Global Prime Partners
Damian Hanniens
Hargreave Hale
Bradley Waring
Hatton National Bank
Tuan ShazliRaheem
Hedley & Co
Chris Chetwood
Illyas Patel
Homeloan Management
Ansko Kwarteng
HSBC
Ryan Lambotte
Caroline Telfer
IM Asset Management
Sarah Dal Pozzo

Insenco
Omar Rahim
KPMG
Peter Okusi
LingBridge
Gogi Amirithangan
Lloyds of London
Yiran Liu
Matrix
Tim Graham
Merrill Lynch
Philip Rose
Pall Mall Partners
James Hartigan
Pershing
Dawn Morgan
Pretium
Grant Whitlock
PricewaterhouseCoopers
Jan Anthony Garcia
Pritchard
Thomas Sowler
Psgma
Victor FitzGeorge-Balfour
Gareth Mason
Qatar Investment Authority
Mohsin Pirzada
Quilter
Danielle Nash
Rathbone
Andrew Lacey
RBC
Jennifer Boxall
Redmayne Bentley
Anita Evans
Robert Kilner
Rensburg Stapenpards
Peter Beale
Robert Travis
Kathleen Underwood
Rickerby
Darron Preston
Rossborough Financial Services
Martin Taley
Royal Bank of Canada
Sumit Sibal
RSM Tenon
Richard Flynn
Ruffer
Laurence Stanway
Seven
Joanna Thowe
SimCorp
Christopher Parry
S J Berwin
Samuel Robinson
Smith & Williamson
Simon Maynard
Christophore Moore
Speechly Bircham
Victoria Ho
Standard Chartered Bank
Nikhil Kumar
Standard Life
Alastair Garvie
John Payne
State Street
Demina Sololova
TD Waterhouse
Wai Lin Bridgen
Thomas Miller
Andrew Taley
Throgmorton Street
Richard Colvile
Unibet
Irina Voloshina
Vishon
Damien Dacourty

Royal Bank of Canada
Edward Maidment
Ruffer
Edward Dannatt
Harry Sevier
Sand Aire
Henrietta Grimston
SG Hambros Bank
Marit Berger Van Der Weg
Danielle Hurst
Alessandro Sajwani
Stephen Solomon
SG Private Banking
Emma-Jade Bougourd
Sinopec Securities
Andrew Barnie
Smith & Williamson
Roly Denman
Standard Bank
Iain Scott
Standard Life
Eleanor Dixon
Gregg Henderson
Swiss Capital
Sorem Iregbulem
Thesis
Sara Anscombe

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

While Anand Kumar, Chartered FCSI, has a successful career in the City of London, he is improving life for poorer people thousands of miles away. Lora Benson reports

ANAND KUMAR IS delivering a brighter future for the rural community in India where he grew up. With the support of his family, he runs the Kusum Trust Foundation. Based in the north-eastern state of Bihar, it provides vocational education for underprivileged students.

The charity, founded in 2008, has built a knowledge centre that serves the village of Katesar and the surrounding district. It accommodates about 150 students between the ages of 16 and 30 and offers free courses in computer skills, accounting, handicrafts and spoken English. The charity also supports other nearby learning centres.

Anand achieves great satisfaction from running a charity in his homeland. “Those who are privileged must do something to lift people out of poverty,” he says. “I believe that imparting education to those who cannot afford it is the antidote to poverty.” Anand fits his community work around his job as Adviser, Strategic Initiatives, at the European headquarters of India’s Bank of Baroda in London.

During a 30-year career in financial services, Anand has worked in India, Singapore and the UK for employers including Bank of India, ICICI Bank and ICICI Lombard, always remaining close to his roots. He was inspired to set up the charity after learning that the primary school he attended as a boy in Katesar was struggling to accommodate its rapidly growing number of pupils.

Anand paid for the school to construct an extra building – allowing it to cater for more than 600 children – and also took time to get to know some of its students. “To my dismay, I discovered their computer literacy was abysmally low,” he says. “I asked one student to forward me his CV, only to find that he didn’t know how to write an email address. It was the turning point that spurred me to launch the foundation.”

Preparing for employment

The Katesar knowledge centre is equipped with 13 computers, 15 sewing machines and a weaving machine. Anand visits two or three times a year, overseeing its funding, and has seen it bring real benefits to the area. “The knowledge the students are gaining is making them more self-confident and independent,” he says. “They study for a qualification – in IT, for example, it is a Diploma in Computer Application – and more than 600 people have passed courses.”

“About ten IT students have so far secured a job. For instance, one has become a teacher and another works for the Central Reserve Police Force. Almost all who take vocational courses in sewing, weaving and similar skills are women and many now work from home in these areas. “I’m in touch with many large retailers in India and Government organisations to find placements for students. The foundation is also looking at overseas markets for products produced by students, including woven baskets.”

Future development

Last August, the foundation began a Sunday health camp at a nominal charge to patients that meets the cost of medicine and a doctor’s administrative costs. About 1,000 patients have already attended the camp. “I’m thinking of launching mobile phone repair training, sweater knitting, doll making and photography facilities,” Anand says. “These skills will enhance the community’s prospects for employability and prosperity.”

The Trust employs six local people: three IT teachers, two in handicrafts and one administrator. “We’re also keen to hear from volunteers who would like to support our work,” says Anand. “Eventually, I want the foundation to become involved in Africa, where there is a great need for education. In addition, my wife, Sangita, and I dream of opening an orphanage in Chapra, Bihar, for children who have either lost or been abandoned by their parents.”

Anand feels his life philosophy is best summed up by the words of Indian leader Mahatma Gandhi and US writer John Andrew Holmes. “Gandhi advised that ‘the best way to find yourself is to lose yourself in the service of others’, while Holmes said ‘there is no exercise better for the heart than reaching down and lifting people up’.”

Further information: kusumfoundation.org

---

"Those who are privileged must do something to lift people out of poverty"
Certificate Course “Trading Derivatives”

One Program – Two Qualifications

This certificate course combines theoretical fundamentals and practical case studies with hands-on use of interactive media and calculation programs. Upon passing the final Certified Eurex Trader Exam, participants receive the title “Certified Eurex Exchange Trader”.

Topics covered include:

• The different markets and market participants in the UK.
• Key concepts and principles relating to the creation, valuation, and trading of derivatives.
• Exercises in the simulation environment of the Eurex® Trading System will help participants to put the newly acquired knowledge into action.

Course participants are also prepared for the Derivatives Examination of the Chartered Institute for Securities & Investment. Since the Certified Eurex Trader Exam is accepted as a credit against the UK regulatory paper, participants can gain the full “International Certificate in Derivatives” after passing both examinations.

For more information please mail to academy@eurexchange.com or contact us at T +49-(0)69-211-137 67 or visit www.eurexchange.com > education
Need some help bridging the gap?

Become RDR compliant with BPP's PCIAM Gapfill training.

If you give advice on retail products, you’ll need to be RDR compliant by December 2012. The PCIAM qualification gets you 94% of the way there. But what about the rest?

The good news is, we’ve structured our ‘Gapfill’ training course to bridge the gap perfectly. Plus with flexible study options available it’s your easy route to becoming RDR compliant.

BPP has over 10 years experience in providing training for PCIAM examinations. We also offer the widest range of CPD courses in the market. So who better to help you make the grade?

To find out more, call 0845 833 7242 or visit bpp.com/gapfill today