

The Magazine of the Securities Institute

Securities

March-April 2002 No. 93

& Investment Review

The search for equilibrium

Will the FSA's depolarisation plans
have the desired effect?

Going straight through

T+1 is still on track – but it's just a
stage on the road to STP Nirvana

Small needles, big haystack

Despite wide industry support for the war
against terrorism, concerns remain

Data integration

STP and T+1 make integrated data
more necessary than ever

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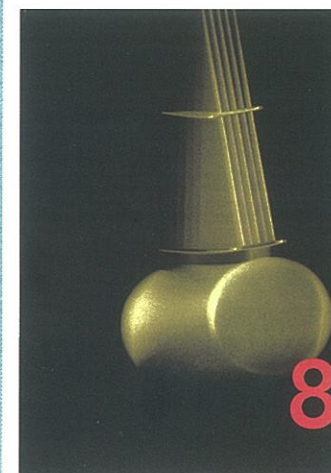
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March-April 2002
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The search for equilibrium

De-polarisation plans put forward by the Financial Services Authority (FSA) are already generating a lot of heat. But light? Many doubt that they will make much difference to the consumers in whose name they have been conceived. Edward Russell-Walling reports.



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STP remains the ultimate goal

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Small needles... ...big haystack

The task faced by financial institutions in meeting their obligations to watch out for terrorist financial activity is monumental, and they often feel they're not receiving enough information about what to look for and where. Charles Piggott reports.

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Looking back

As the Securities Institute celebrates its tenth anniversary in April 2002 in the medieval grandeur of Guildhall, we will reflect that a ten-year history is not much compared to that of many other City institutions. But we have achieved much in our first ten years. In the Institute's foundation prospectus I wrote: "A firm's success depends ultimately on the integrity and professional competence of its individual practitioners. The Institute will play an important part in fostering standards of integrity and proficiency amongst practitioners." Our founders were concerned, when the Stock Exchange gave up its centuries-old system of individual membership, that a void had developed. The new regulators were concerned with people's knowledge on entry to the industry, and their rule books demanded compliance rather than an internalised sense of ethics in practitioners. The Institute set out to fill this gap.

The first challenge was to build up Institute membership and, thanks to the support of senior City practitioners, it achieved this in its first year with more than 8,000 members. Only around half of these came from the Stock Exchange so it had succeeded in appealing to a broader base of industry professionals. The total number is now 17,000 and is increasing.

Where training was concerned we did not want to duplicate courses already available, but to identify areas where we could fill a need. The training which we ran for CREST was a typical example. Another area where we felt the Institute could add value was in operations and settlement generally. A range of qualifications and associated training was developed which is now a very important aspect of the Institute's work.

The speed of change in financial services is ever increasing and the consequent need for continuing professional development throughout a practitioner's working life is of vital importance. We have helped members meet that need. I am pleased that the FSA has clearly recognised the importance of 'our' issues of continuing competence and ethical behaviour – and in so doing has given us a renewed impetus to press ahead with our work.

Looking back, I ask myself, has the Institute added value? Yes, we have, but we cannot rest on our achievements. Standards in our industry must continue to rise. The clients demand it, the regulators demand it, but above all, practitioners must demand it of themselves. To be a professional in today's securities world is to be committed to excellence. The Securities Institute exists to help members meet that commitment. ●

Graham Ross Russell, former Chairman, Securities Institute.

Looking forward

Graham has described the challenge of the Institute's first ten years. I want to look forward to our next decade. In our first ten years, famous names have gone out of existence and new houses have come to town. A dynamic industry has to be served by a dynamic Institute alive to the needs of change. So we are extending our range of qualifications. A new qualification for investment management reflecting the way private client asset management has developed in recent years, will have its first sessions in April. New examinations on administration in the life and pensions industry, on corporate actions, and on corporate finance are under development. A greatly extended programme of membership events to help members honour FSA's requirement to keep their knowledge up to date, is underway. The Institute has pioneered web-based training for regulatory examinations and offers all members at no charge a web-based regulatory updating programme. We will expand our web-based activities. My priority is that we should offer members good value for their subscription, and this I believe we do.

We are also looking to expand beyond our traditional area. We hope to work more closely with universities and other educational organisations to give students a better understanding of the industry and equip them with skills needed to take increasing employment opportunities. In this connection, we are offering pioneering courses in Glasgow and in East London which are being well received, and we can do more.

Our largest supporters are now global firms, which need a mobile workforce. Institutes and regulators need to develop frameworks in which local qualifications can become part of a larger scheme. The Institute is engaged in discussions with its peers in other major centres. The need to set standards for competence and professionalism is the same in the securities industry around the world, and there is need for co-operation and shared development.

We have not forgotten our founders' position on the importance of integrity. Increasing product and geographical complexity have increased pressures on individuals and their managements. The Institute believes that creating and sustaining a strong ethical culture can be a major factor in avoiding the reputational risks inherent in our increasingly complex businesses. We are committed to helping individual members and their firms with this process.

As Graham has shown, we have come a long way in our first ten years. The next ten years should be even more challenging, but with the support of our membership and our corporate supporters, I look to the future with confidence. ●

Scott Dobbie, Chairman, Securities Institute.



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BUOYANT BOND MARKET

EUROPE'S corporate bond market is set to continue its strong performance this year, with separate reports from Citigroup/Schroder Salomon Smith Barney and Standard & Poor's taking optimistic views on the prospects of the fixed income market.

A report from S&P late last year said the outlook for new bond issuance in the EU was moderately encouraging, with issuance volumes boosted by continued strong demand from firms for refinancing M&A related loans into longer-dated maturities. Citi/SSSB – Europe's major lead manager for bonds – took a more bullish view in a report released in January, arguing that spreads are discounting too bleak a view on growth.

Last year, bond market issuance beat all previous records with a total of \$1.68 trillion worth of bonds, according to

research from Dealogic.

European debt markets are still benefiting from the launch of the euro in 1999, which has facilitated deeper and more liquid debt markets. According to S&P figures, new issuance by European issuers totalled \$24.8bn in the year to 16 November 2001.

This year has already witnessed some big deals, such as German carmaker BMW tapping the markets with the launch of a seven-year €750m issue. In the sterling market, gas group Transco is launching a £200m issue.

S&P said that, in Europe, the appeal of convertible bonds has been enhanced by the pervading gloom in equities markets. With interest rates also declining, borrowers are finding it cheaper to issue convertible bonds in anticipation of rising equity valuations. This is backed up by research from

UBS Warburg, which shows that convertible bonds issued in Europe last year gained 3.1% by year-end while the market as a whole dropped 7.1%. However, this is partly a reflection of the rise in repeat issuance, forcing them to be discounted to existing paper. The bank says this boosted performance of new bonds and put pressure on old bond prices.

European convertible bonds worth a combined \$52bn were issued, a rise of almost 70% on the previous year. The boom in equity-linked issuance is causing some issuers to quell speculation that they are about to dip their toes in the market. France Telecom issued a statement in January disputing rumours that Germany's E.ON was about to sell down its 2.1% stake in mobile operator Orange. Analysts say that the healthy issuance market was forcing many to look for new candidates to sell down cross holdings.

IPOs SHOW HINT OF RECOVERY



Neil Austin, KPMG

THE GLOBAL volume of initial public offerings (IPOs) more than halved to \$84.2bn last year from \$192.4bn in 2000, according to Dealogic.

IPO volume in Europe, the Middle East and Africa (EMEA) fell by two-thirds to \$31.6bn, its lowest rate since 1995. In the UK, IPO volume was at its worst level for a decade, but confidence is returning in the first quarter of 2002, according to new research by KPMG Corporate Finance.

New issuance in 2001 was 7% down on 2000, but two-thirds of last year's figure was represented by just two IPOs, Orange and Friends Provident.

Promise for 2002 is shown, according to Neil Austin, head of new issues at KPMG Corporate Finance and also author of the research, by "tangible plans for listing by the end of the first quarter." Yet Mr Austin cautions against overconfidence: "The new issues boom in 2000 was driven by a high volume of technology companies coming to market. Other sectors are not going to provide the same volume of candidates." Recovery will require a receptive market to the corporate restructuring trend of spinning off non-core assets and demergers.

FUND MANAGERS OPTIMISTIC ABOUT 2002 RECOVERY

A NEW SURVEY by Merrill Lynch reveals that most fund managers are convinced that this year will see a global economic recovery sufficient to restore pricing power, revive corporate profits and to justify an aggressive switch away from defensive positions to cyclicals.

Fund managers suggest that business activity has troughed, with a net 86% expecting the real economy to improve over the coming year. Only five per cent of the 273 respondents in Merrill Lynch's monthly survey thought the global economy might be weaker in a year's time. In December, the survey found fund managers anticipating having to trade their way out of recession, with shorter than normal investment horizons.

However, institutional investors say that global equities no longer look cheap, with a majority feeling that the market is overvalued rather than undervalued. Moreover, though 79% of respondents in January thought equities would be higher in a year's time, most are only looking for single digit returns. The mean estimate of corporate earnings growth in 2002 is only 7%, up by a single percentage point on December.

The survey shows that fund managers are looking to add to their eurozone and emerging market equity positions, with the preferred sectors being technology, general industrials and basic industries.

ANOTHER STRONG YEAR BECKONS FOR ABS MARKET

EUROPE'S ASSET-BACKED SECURITIES (ABS) market will continue its strong performance through 2002, says a report issued by Moody's Investors Service in January. The report predicts that the sector would build on its 126% growth in year-on-year issuance volumes in 2001, though at a slower pace. The ABS market has benefited from a post-September 11 flight to quality, prompting Europe's highest-ever monthly issuance total in October at €21.4bn.

Issuance volumes grew to €42.1bn in 2001, a rise of €23.5bn on the previous year. The number of transactions rose by more than 50% to 67 with an average deal size increasing from €422m

in 2000 to €628m on the back of a substantial rise in mega deals in excess of €1bn.

Moody's senior associate George Skelton, who authored the report, says he expects the European ABS



George Skelton, Moody's

market to widen as issuers become aware of the diverse types of structures available, such as those backed by non-standard assets. However, the

report says that Europe has some way to go before it reaches the level of maturity of the US market. Most ABS deals in the US are repeat transactions, and though there will be a rise in the number of European repeat transactions as increasing numbers of debut issuers return to the ABS market, these will not approach the levels in the States.

Credit ratings agency Fitch Ratings says that despite the economic turmoil throughout the globe, 2001 proved to be another remarkable one for the US market in asset-backed commercial paper (ABCP). ABCP outstandings rose to \$745.3bn on 31 December, an all-time high.

LSE VOLUMES BREAK TRADING RECORDS

THE LONDON STOCK EXCHANGE (LSE) enjoyed record trading last year, with trading volumes 22 per cent higher than in 2000 and over 50 million trades completed.

Trades executed on Sets accounted for £660bn worth of trading, up 24% from the previous year. The 15.9m trades executed on Sets in 2001 were the highest yet, beating the previous record by 7.3m in 2000.

"Sets' attractiveness has been a crucial factor in driving this year's increased market volumes," says Chris Broad, head of broker services at the LSE. "Other factors that contributed

include the increasing popularity of hedging and the introduction of the central counterparty, the International Order Book and the International Retail Service."

Future plans for the exchange include a new internet protocol network in April called Extranex, which is designed to increase network activity and distribute a new range of products and services to LSE members.

● Companies planning to list on the LSE could face an increase in fees as a result of the transfer of the UK Listing Authority from the LSE to the Financial Services Authority



Chris Broad, LSE

(FSA). The subsidy to fund the Regulatory News Service (RNS) will disappear from the listing fees in March, when the service competes with rival company news providers. However, this is unlikely to offset the new listing fees.

TRADE BODIES COULD MERGE

THE CONVERGENCE in markets, institutions and regulations is leading to greater collaboration between national and international trade associations, according to Anthony Belchambers, chief executive of the Futures and Options Association (FOA).

"The case for consolidation among trade associations is that there are stronger product synergies and a growing commonality

of interest across their memberships," says Mr Belchambers. "It could be that those who are members of several associations no longer see the scope for replication of their interests."

While the FOA has no current plans to merge with another association, Mr Belchambers explains that trade associations need not necessarily merge fully. Associations lobbying for a common

cause could work more closely together on discrete projects: "Trade associations are naturally harmonising. They often have similar concerns and are raising the same issues."

The FOA is one of several trade bodies that represent the views of the derivatives industry; there are also numerous banking and insurance associations across Europe.

UK HIT BY PRIVATE EQUITY COLLAPSE

MAINLAND EUROPE'S PRIVATE EQUITY MARKET is on the verge of eclipsing the UK's for the first time, following a dramatic drop in UK deals in the last quarter of 2001. Just 79 deals were completed in the final quarter of 2001, with a value of £1.1bn – and only three deals were valued above £100m.

The decline in UK buyouts means that total investment levels in continental Europe could soon exceed that of the UK, traditionally the largest private equity market. Analysts attribute at least part of the decline to tighter lending by banks in the period following the September 11 attacks, but this is expected to rebound this year as stalled deals are revived.

According to KPMG Corporate Finance, the total volume of larger UK management buyouts (worth over £10m) fell in the last quarter of 2001 to 22 deals with a total value of £1.4bn – the lowest volumes since 1995. In 2001 as a whole, 124 transactions with a cumulative value of £18.9bn were completed, down from the previous year's 158 deals worth £20.6bn.

KPMG says buy-out activity held up well until the final quarter, which saw a 54% drop in volume year-on-year. However, the firm is optimistic that the worst is over.

"We believe that 2002 looks more promising as vendor expectations move into closer alignment with prices private equity buyers



Charles Milner, KPMG

are willing to pay," said Charles Milner, head of private equity at KPMG. "The first few months of the year will be crucial in determining the extent of any recovery. A number of private equity buyers believe that 2002 will be an opportunity to acquire quality businesses at realistic prices."

UK FUNDS SHOW STEEP DECLINE

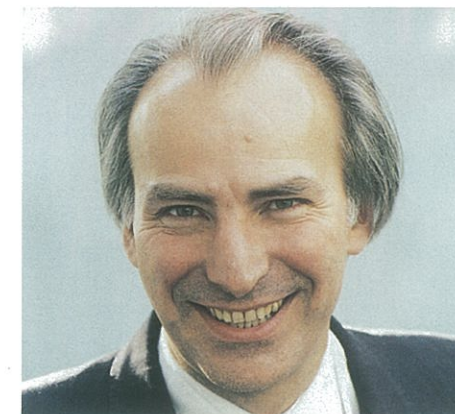
AVERAGE UK FUND RETURNS last year fell 11.69% on 2000's figures, according to Lipper, the fund rating agency. This represents the largest decline since 1990.

Fewer than one-fifth of UK domestic funds saw positive returns for 2001. They were bear funds, fixed-interest and money market sectors, property and the Latin American sector.

Equity funds fell by an average of 15.6%, while the bond markets stayed positive at an average return of 2.6%. Best performer was the UK corporate bond fund market at 4.8%. The worst performing sector was technology and telecoms, which returned a 39.4% loss.

The Euronext effect

Anthony Hilton sees London losing control of its infrastructure – but retaining trading dominance.



With each passing month it becomes more obvious how Euronext's acquisition of Liffe has fundamentally altered the power balance in Europe. What has hitherto been seen as a fight by Frankfurt and Paris to topple the London Stock Exchange from its position as the dominant bourse in Europe is now a two horse race between Paris and London, with the balance of advantage with the French and Frankfurt fast losing ground.

In a modern application of domino theory, the alignment of Liffe and Euronext has already precipitated other moves – some public, some still under wraps. The logjam of national interests which has so far frustrated moves to rationalise the UK securities industry infrastructure is beginning to break up.

The alliances of Europe's three main depositories' major customers has created a new impetus for closer co-operation. The odds must be in favour of a merger or some combination to achieve the same effect in the next few months. That would have a knock-on effect on the settlement business.

Euroclear, the Brussels based settlement agency, is now an independent and flourishing business expanding fast into domestic and cross-border equity settlement. Euroclear has already merged with the French domestic settlement business, formerly known as Sicom, and partly as a result of this it now has a 20 per cent stake in Clearnet.

Separately it recently signed a deal with the LSE under which Exchange clients can opt if they wish to use its settlement service rather than CREST. The LSE sees this as a way of making itself more attractive to Euroclear's unrivalled list of all the world's significant internationally-oriented financial businesses. Euroclear sees it as a way into a closer relationship with Europe's most important exchange.

Both these factors give Euroclear a close interest in the outcome of the talks, but there is something else. The bigger they are, the more effective and efficient clearing houses and central counterparties become.

A combination of LCH and Clearnet would be much more than the sum of its parts because it would increase dramatically the opportunities for netting off positions prior to settlement. This in turn would free up regulatory capital, allowing investment banks to trade significantly more – thereby delivering significant benefit to the industry and to its service provider, the settlement organisation.

The other seismic event of recent weeks has been Euroclear's failure to take over its rival Clearstream, which instead will become a wholly-owned subsidiary of Deutsche Börse, thereby creating Europe's most obvious silo – in which trading clearing and settlement

are all achieved within the same institution. This gives Frankfurt in theory a powerful business for creating shareholder value, given that it can use settlement revenues to subsidise dealing and appear to be cheaper. Its problem is that the world is not going Frankfurt's way. Customers want open systems, not monopolies, and are increasingly alive to the total cost of a transaction. The result is that Frankfurt may have won Clearstream, but it is already losing key customers and its momentum is flagging.

Nevertheless it has a strategy, as does Euronext – making London the odd one out. Assuming that the dominoes fall, with the clearing agencies merging, the settlement businesses forming closer ties, then the odds must be on Euronext and London getting together, probably also with the London based virt-x, which would bring in all the Swiss blue chips. This would only happen, however, if the French were seen to be the ones on top, doing the takeover.

The big question going forward, therefore, is whether the LSE and its shareholders share the view articulated by Sir Brian Williamson when he sold Liffe, that the ownership of exchanges does not really matter much in this electronic age. What does make a difference is where the customers are, where the decision makers are based and where the value-enhancing aspects of the business are done. I predict, therefore, that Britain, having given up the ownership of its financial institutions, will in time also lose ownership of its securities market infrastructure. But the reward – counter intuitively – will be that this consolidates its position as the dominant financial centre. ●

Anthony Hilton is City editor of the London Evening Standard.

OPTIMISM OVER PROPERTY INVESTMENT

FUND MANAGERS remain positive about property investment, according to an annual survey of the market carried out recently by integrated property asset manager Baring, Houston & Saunders, which is part of the ING Real Estate Group.

Despite being carried out in the aftermath of the September 11 attacks, the number of pessimists only increased from 2% to 5% over the previous year, with 29% of respondents reporting that they felt optimistic

about the property investment market over the next twelve months.

Property weightings in portfolios have increased by default due to the significant fall in equity prices last year.

Of the 64 respondents, 80% said their property weighting had increased and 37% expected an allocation of new money into property, a leap of 22% on the previous year. The firm said this suggests that property fund managers

remain optimistic over the future performance of this asset class relative to gilts and equities.

Industrial property looks likely to be the best performer in the sector in 2001, although fund managers have this year reappraised their preference for the sector with 21% indicating that it was their preferred sector, against 26% in 2000.

Baring, Houston & Saunders analyst Alistair Dryer says hurdle rates of

return have fallen by about 2% since last year's survey when the majority of respondents had indicated a hurdle rate in the region of 11%. "This is still considerably higher than expected short-term returns and must build in an element of recovery in the market. It would also appear that there is an increasing acceptance of the fact that nominal investment returns are likely to be much lower than those of the 1990s", Mr Dryer says.

Perspectives is compiled by Andrew Maiden.

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▶ the idea of a two-tiered system of advisers, with a less qualified second tier being allowed to sell simpler, lower-risk products. The regulator also wants to consult on greater transparency of advice, marketing and product costs.

Why the changes? 'Commission bias' – the tendency of IFAs to push products carrying higher commission rates – is one reason, according to the FSA, which says that consumers are paying some £140 million a year in excess commissions. Another is that the hoped-for competition in price and innovation between product providers has failed to materialise.

One further proposal both acknowledges and enables the structural upheaval to come. Limits on investment by product providers in IFAs will be scrapped.

IFAs are agitated, to say the least. The Association of Independent Financial Advisers (AIFA), which represents 70 per cent of the market, has predicted industry chaos and confusion for consumers. A simple system, it says, will be replaced by a free-for-all.

"The FSA's own research shows that most consumers perceive independent advice as the best," insists AIFA chairman Lord Hunt. "But they have come up with proposals which by their own admission could reduce the number of independent advisers. This is totally illogical."

It is certainly true that most people express a preference for independent advice. The trouble is that, in practice, most choose not to take it.

"Over 80 per cent simply walk into a big

high street name that is only allowed to sell its own products," points out FSA spokesman Vernon Everett. "That limits their choice."

Jean McIntyre, an independent adviser with Argyle Financial Group, offers her clients the option of paying a consulting fee instead of leaving her to claim commission. "I have been in this business for a long time, and only three people have ever opted for fees," she says. "It's not part of UK culture to pay for a financial adviser's time, particularly when they find they have to pay VAT on top of the fee."

Ms McIntyre adds that she fails to see how multi-ties will work within a host company like a bank. "The people employed by the bank will be expected to offer other companies' products," she says. "But the bank will encourage them to sell its own products, because that's where the money is. This won't assist anyone. It will just make it more of a muddle. And to suggest that lower earners will be better served is foolish in the extreme."

The fear is that, faced with the option of paying a fee to an IFA (with the

compensation of rebated commissions) and getting apparently 'free' advice from a multi-tied agent, consumers will favour the latter.

"The independent advice sector will take a very heavy knock," predicts Professor David Bland, head of the East London Business School. "It's a matter of public interest whether or not that's a good thing. I don't think it is."

Prof Bland accepts that the best IFAs, with a wealthy client base – many of whom are fee-paying already – will survive. Many others will be squeezed, however, and will end up going to work for the product providers or the stronger independents, he says. Any compromise on the FSA proposals may depend on how much the authority wants to propitiate the big providers. "It has been hitting them with compliance and other costs," he notes. "This may be a quid pro quo."

Some in the industry were taken aback when the FSA opted for the most radical reforms at its disposal. Insurance industry consultant Ned Cazalet, however, says that he was not surprised at all. "You

have to understand where the FSA is coming from," says Mr Cazalet. "There has been a lot of unhappiness about the present situation, particularly the skills base and commission bias of IFAs."

According to Mr Cazalet, the IFA industry is being made up of a "very small number" of high quality businesses, and a lot of "poorly resourced, financed and qualified" operators. "The question is what will happen to them?" he continues. "Some will carry on, with fees agreed at the outset. Some will go out of business. Others may enter a baroque arrangement where they can take commissions but dress them up as fees. It means a huge shake-up for the industry."

Some IFAs are talking of registering two companies – one with distributor (ie commission-earning) status and the other as an independent. But the insurers have to do some thinking too. As the industry stands, the power lies with IFAs, who are distributors for the bulk of life and pensions business. Since they may soon be free to invest in IFAs, many life companies are now pondering whether or not they should. If multi-ties become the way to go, the best way for a provider to make sure it is on the list is to take a stake in an IFA.

"There is a danger that life companies will rush into buying these cottage industries, as they did with estate agents, paying large sums for goodwill and nothing else," warns Mr Cazalet. "Because if they don't, someone else might. You may find that all the significant distribution channels have



.....
**When the dust has settled, will anything have changed
 in any real sense – apart, that is, from IFA shrinkage?**

▶ been snapped up and you're out in the cold. This is a very tricky time for providers. They need to think radically about what the world will be like going forward."

Insurers are already considering how to forestall a re-run of the expensive institutional dash for estate agents in the 1980s. At a London forum in December, they considered a document drawn up by an executive at a large insurer on new ways of remunerating IFAs. It proposed paying smaller commissions over a longer period, but it also pointed up the risks of a damaging free-for-all if insurers scrambled to acquire distribution capacity.

Some of those present at the forum suggested that the new commission formula could be used as a basis to value IFAs in the event of an industry-wide auction. It has been suggested that the Office of Fair Trading may be taking a keen interest in such discussions, in case they lead to cartel behaviour.

So we can undoubtedly expect much activity, as IFAs consider their futures and adapt accordingly, and as product providers manoeuvre for advantage. But when the dust has settled, will anything have changed in any real sense – apart, that is, from IFA shrinkage?

One of the FSA's professed motives for all this is to increase retirement savings, particularly among the less well-off. It quotes research from the Association of British Insurers (ABI), claiming a £27 billion shortfall in funds set aside for British old age, and says it will step up its educational activities.

It is hard to find anyone who believes that more people will start saving as a result of the reforms. When asked, many point disparagingly

to the government's stakeholder pension plans which, in spite of more promising recent sales, could hardly be described as a runaway success.

Ned Cazalet points out that the reason stakeholder pensions haven't caught on is that they are aimed at people who don't save, because they have no money. "It's the same here," he says of the FSA proposals. "This does nothing. There's a lot of twaddle about this in the [FSA's] document but these are political messages." He adds that if the ABI's £27 billion were being saved instead of spent, the UK economy would be in recession.

Douglas Black, former CEO of IFA group Towry Law, is inclined to agree. He notes that the UK is the only country in the world that cleaves to the polarisation concept, and that the rest of the world is getting along rather well without it. However, he thinks, "in real practical terms abolishing it won't have much of an effect".

Distributors have found it difficult to raise capital and so have been starved of resources, says Mr Black. "So if you believe that the consumer is best served by fewer, larger players, depolarisation will achieve that. But this is driven by the Treasury, not the FSA. And the downside is that every time the government decides what is best for people in financial services, they have generally got it wrong."

No additional product will be sold, Mr Black concludes, "because financial services are things that have to be sold. If there are fewer people to sell them, maybe less product will be sold." ●

Edward Russell-Walling is an independent financial journalist.

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STP remains the ultimate goal

Until October of last year, all the talk in the US securities industry was of the drive towards T+1 settlement. But, when the SIA announced its decision to push back the deadline for T+1 in the US to 2005, the emphasis moved to a slightly different target.

Richard Greensted explains what's going on.

"STP [straight-through processing] and T+1 will provide the industry with greater capacity to clear and settle far more transactions with even more precise accuracy and greater speed than what can be done today," explained Donald Kittell, executive vice president of the Securities Industry Association (SIA), announcing the new 2005 deadline for T+1. "The less aggressive pace will enable firms to complete the substantial systems development required for STP while continuing with other critical technology projects."

The greater prominence given to STP is no accident. "STP is the ultimate objective, and T+1 is the catalyst for that," says Joe Anastasio, lead partner with Capco North America, the industry consultant running the T+1 project management office for the SIA. This approach was given further credence when the Depository Trust & Clearing Corporation (DTCC) announced that it would continue with plans to re-engineer its technology applications in preparation for STP and delivery of enhanced services, despite the T+1 delay.

"The changes we now have under way, while prerequisites for both STP and T+1, are much broader in scope and offer a number of benefits to the industry even without T+1 implementation," says Dennis Dirks, DTCC's chief operating officer. "Consequently, we intend to push ahead and adhere as much as possible to the schedule we originally established."

Art Thomas, chairman of Merrill Lynch Securities Services



Joe Anastasio, Capco North America, stresses that interoperability between GSTPA and Omgeo is critical to T+1



Dennis Dirks, DTCC's CEO, says the original schedule will be adhered to as closely as possible

there are more effective ways to reduce risk and improve operating efficiency. The cost of the project to the industry, as calculated in the SIA business case, is put at somewhere around \$8 billion, a figure that some observers feel is simply too big to justify in the current environment.

"Is it sensible to force the securities industry to invest huge amounts in moving to T+1 so soon after massive investment in preparation for the euro and Y2K?" asks Andrew Tinney, global head of investment banking at Andersen. "Companies would be far better off spending money on improving customer service, management information, and overall monitoring and management of risk, than on moving to a new standard that might be better left for another time."

Concerns about the state of the supporting infrastructure have become much more prominent since the September 11 attacks. Analysis prepared by Meridien Research, a financial industry technology research firm, demonstrates the problems that lie ahead.

Looking at what happened in the immediate aftermath of the World Trade Center attacks, Meridien says, "The events of September 11 have brought to light that the current technological infrastructure is not ready for T+1. In a T+1 environment, data will have to have clear conduits at all times. Instead of happening at discrete times that can be moved around as needed, clearing and settlement will need to occur on an ongoing basis, even in a non-real-time environment. The week of September 17 has shown that the current telecom structure has too few conduits. Thus, if a major thoroughfare of lines and routers goes down, for example, in a black-out, too much data will be slowed down because of blockages, causing firms to miss the T+1 deadline."

Technological issues played a part in the decision of the industry to defer T+1 until 2005.

"The SIA's decision to delay T+1 by 12 months, driven by the events of September 11, and current business conditions in the US financial markets, was also a reprieve for the matching vendors, who have the challenge to achieve interoperability before the US market's move to T+1," says Capco's Joe Anastasio. "Asking GSTPA and Omgeo to look and feel the same to achieve complete inter-operability is a monumental task. It's like asking Ford and General Motors to make all of their auto parts interchangeable."

Mr Anastasio stresses that inter-operability between the two systems is one of the critical success factors for the project.

"There are four wheels on the STP/T+1 vehicle," he explains. "We must work out how GSTPA and Omgeo co-exist. We must have the SEC amend its rule 15(c)6-1 to mandate T+1. We need to help the retail industry to comply with T+1 by eliminating paper certificates and cheque payments. And we must convince the buy-side of the benefits and advantages."

Division and a board member of DTCC, believes that the market needs T+1 as a milestone on the road to STP.

"T+1 is a settlement standard that will force the industry to adopt much tighter procedures and eradicate manual processes," Mr Thomas says. "In theory you don't need to use T+1 to achieve this, but without the discipline it introduces, the journey to STP would be a philosophical one. You won't get total industry compliance to STP standards without building it around T+1."

Conscious of the need to reinforce the message, the SIA has been at pains to emphasise the positive efforts of the industry.

"While firms have refocused their priorities as a result of the economic downturn and the events of September 11, they continue to implement the necessary adjustments to their own systems for the transition to straight-through processing and T+1," Donald Kittell said after an SIA conference and exhibition in January.

The linkage between STP and T+1 has been one of the industry's fundamental principles since the original SIA business case was published in July 2000. Whilst not officially mandating the change, the US Securities and Exchange Commission (SEC) has strongly endorsed the SIA's initiative. In an open letter to the industry last February, Arthur Levitt, then SEC chairman, said, "I believe that achieving T+1 and straight-through processing is critical to the continued success of our markets. These initiatives should help ensure that the US securities markets are prepared to handle the expected increase in trading volumes and remain the leader in the world's markets."

Despite such heavyweight approval for T+1, there are rumblings of dissent. Those who question the need for T+1 tend to base their reservations on three essential points: it is too expensive, the infrastructure cannot support it, and

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Without the discipline imposed by T+1 the journey to STP would be a philosophical one



Andersen's Andrew Tinney: The \$8bn cost of T+1 could be better spent



Tom Perna, The Bank of New York: Fund managers are looking for solutions that don't force them to make a major investment

Opinion differs as to how difficult it will be to enable Omgeo's Central Trade Manager (CTM) to talk to GSTPA's Transaction Flow Manager (TFM). Some people close to the project suggest that the TFM still has difficulty with the Institutional Transaction Processing Committee (ITPC) model developed by the SIA, largely because the TFM was designed to handle cross-border transactions, rather than for domestic US trades. But Art Thomas of Merrill Lynch does not see any cause for concern about two vendors delivering a matching service in the same industry space.

"There is an argument that says that one provider would be better than two or more, but the current situation doesn't deprive the market of innovation and creativity," says Mr Thomas. "The two models are different. If they were exactly the same, there would be a stronger argument for consolidation."

Although no one wants to point fingers at the fund managers, there is a general feeling that the ultimate success or failure of the STP/T+1 initiative lies in the hands of the buy-side.

"The real indication of whether this project will work is going to come when we see the reaction of the fund managers to the TFM and the CTM," says Tom Perna, senior executive vice president of The Bank of New York and a board member of DTCC. "They are looking for solutions that don't force them to make a major investment."

Another global custodian, Citibank, is also watching fund manager reaction carefully. "Initially we were disappointed about the lack of action by some fund managers," says Francis Jackson, head of global custody product management at Citibank. "STP and T+1 are vitally important to us, because of the reductions in operational and counterparty risk. Our challenge is to

convince our clients, and their clients, of the benefits."

There is little disagreement that T+1 will deliver significant benefits. In its 2000 business case, the SIA highlighted four in particular:

- a dramatic reduction in the settlement risk exposure of the US securities industry, resulting in a significant economic benefit to the industry;
- maintenance of the US market's competitive position globally;
- synchronisation of clearing and settlement processes across asset classes, enabling more flexible trading and investing; and
- better support for increased trade volumes through improved processing functionality.

In absolute terms, these are ineluctable. But the question remains as to whether the cost of T+1 outweighs such benefits, especially in such a harsh economic climate. But key project sponsors like Art Thomas are adamant that this is the best way forward. "Ultimately, there is only one real objective: improving the efficiency of global markets," he says. "At a very minimum, we have to ensure global adherence to standards. That's what we are trying to do with T+1 in the US." Mr Thomas also has a very clear view of the significance of the 2005 deadline. "This isn't the same as Y2K, when you couldn't avoid the deadline," he says. "With T+1, the direction is more important than the date." ●

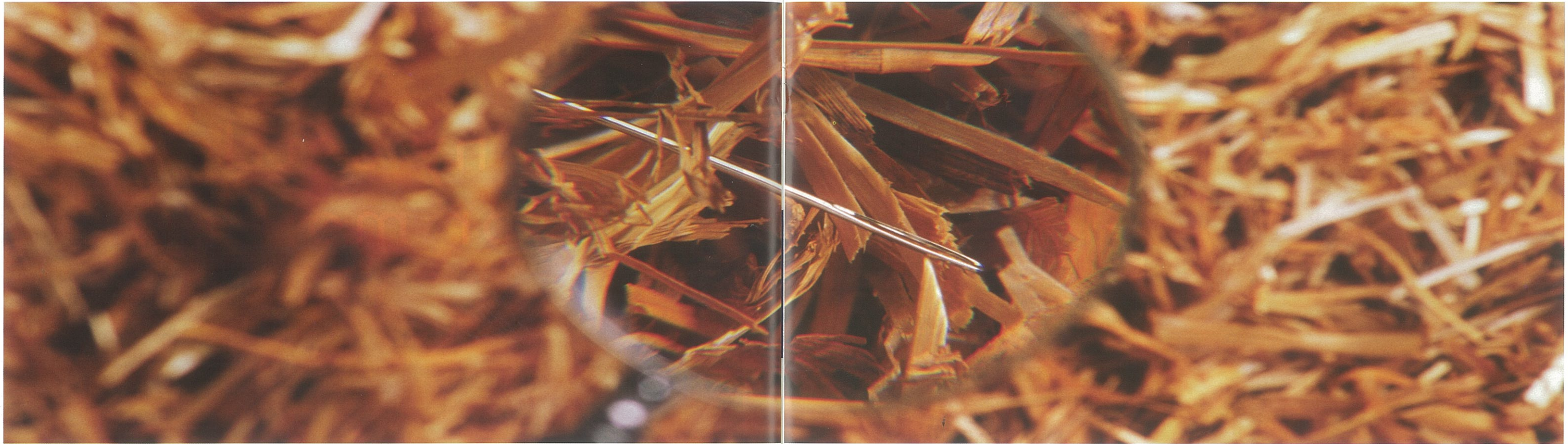
Richard Greensted is the managing director of RGA, a consultancy specialising in global custody and investment administration. He is editor of the news website, Scrip Issue, and writes a weekly column for Financial News.

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The task faced by financial institutions in meeting their obligations to watch out for terrorist financial activity is monumental, and they often feel they are not receiving enough information about what to look for and where. **Charles Piggott** reports.

No alarm bells would have been triggered at major financial institutions in the run-up to September 11," says the chief compliance officer at one of the world's top five largest financial groups, talking frankly about the problems involved in identifying suspected terrorist transactions. "The problem is how to identify as suspicious a transaction that may be no larger than the price of a plane ticket and may have come from an entirely legitimate source."

Even the largest financial institutions have found it almost impossible to agree a working definition of what terrorists' financial activity may look like. The fact that the attacks on the World Trade Center and Pentagon may have been financed by no more than \$300,000, from eight or nine seemingly

normal accounts, has given banks few clues as to what they should be looking for.

The frank admission by industry leaders of the difficulties involved in tracing terrorist funds comes at a time when governments, regulators and law enforcement agencies are putting more pressure on financial institutions to search out the accounts of suspected terrorists. In the UK, new legislation such as the Terrorism Act 2000 and the Anti-Terrorism, Crime and Security Act 2001 have increased the penalties for failing to report suspicious transactions. In addition, the strengthened powers of the Financial Services Authority following the Financial Services and Markets Act 2000 have also put more pressure on institutions to report suspicious activity.

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Brian Dilley, one of the enforcement heads at the FSA, says that some institutions will have to raise their game to meet existing legislation, some of which has been in place since 1994.

"The government gave the FSA stronger powers to ensure institutions have the proper controls to combat financial crime and stronger powers to act where this is not the case," says Mr Dilley. "Our primary focus is to ensure that all institutions have the adequate systems and controls in place for knowing who they are dealing with."

Mr Dilley stresses that the FSA is willing to prosecute institutions for failing to monitor suspicious activity. "In cases where there are failures on the part of institutions to maintain adequate anti-money laundering controls, we have the powers to bring criminal prosecutions," he says. "Where the officers of the institution are wilful or negligent in this failure, we can also prosecute them."

Early successes in seizing accounts of more than 50 individuals suspected of terrorist links in the immediate wake of September 11 have not stopped a growing number of banks from voicing private unease at the longer-term implications of the war being waged against terrorist funding. Institutions fear that although they may be legally liable for failing to spot criminal activity, they have been given little guidance on how to spot it.

John Holland, a partner specialising in banking at international law firm Lovells, is also concerned that governments may focus on the easiest targets rather than those that are the most dangerous.

"It has simply proved too difficult for governments to prosecute organised criminals and terrorists, so they have turned to softer targets such as bankers, lawyers and accountants," Mr Holland says. "I think we have to question where this is going."

The chief compliance officer quoted earlier says: "This is a government fight, but there are things that banks can do and we are prepared to do them. However, the authorities need to be realistic about what can be achieved. If government agencies can tell us what to look for, then we can look for it. But at the moment there is not enough information available about patterns of suspicious activity."

In the UK, no government department wants to admit that they do not have an answer to the difficult question of what terrorist transactions look like. *Securities & Investment Review* put this question to the Home Office, which referred the question to the Treasury, which deferred to the FSA, which suggested speaking to the National Criminal Intelligence Service (NCIS), which thought the Special Branch of the Police best qualified to answer the question. However, Scotland Yard felt unable to discuss a "sensitive" area of their operations and thought – you've guessed it – the Treasury or the FSA would be able to help. This illustrates well governments' dilemma on whether to

release information at the risk of tipping off their suspects.

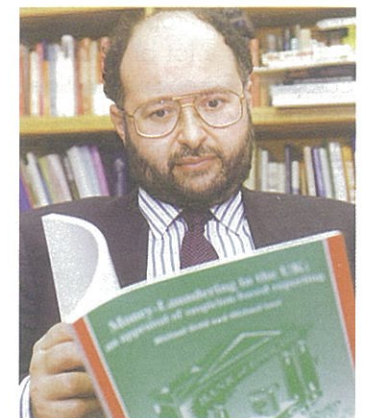
Banks have also had problems getting clear official information and guidance. Clearly frustrated at attempts to clarify what his institution should be looking for, one money laundering reporting officer for an international banking group says: "There are simply too many lists, guidelines and regulatory rules that are all open to widely contradictory interpretations. The point is that despite the growing volume of guidance notes, rules and regulations, there is actually very little detail or answer to the question of what a suspicious transaction looks like."

Andrew Clark, head of anti-money-laundering services at PricewaterhouseCoopers says: "There is an increasing pressure on institutions. They want to do the right thing, and also to be seen to be doing the right thing, but this is difficult given that it is not totally clear what that right thing is."

Although the industry is widely supportive of the war against terrorism, there are concerns that institutions may be held liable not just for failing to report suspicious transactions,



Jon Holland, Lovells:
Governments have turned to soft targets like bankers, lawyers and accountants



Michael Levi, Cardiff University:
Objective standards for a negligence test have yet to be set

but for negligently failing to spot criminal or terrorist activity.

"There are some in the industry who are looking for a few symbolic floggings to re-enforce the seriousness of this issue," says Michael Levi, a professor of criminology at Cardiff University. "The problem is that the test for reasonable grounds for reporting a suspicious transaction are in part subjective and the standards for a negligence test have yet to be set."

Paul Tipping of the British Bankers' Association says that there have been high-level political assurances that the Home Office has its eye on cases where institutions or individuals have wilfully turned a blind eye. However, what worries institutions is that even straightforward checks have proved difficult to perform in practice. For example, banks are obliged to check their client databases and transaction



Paul Tipping, British Bankers' Association: Authorities are watching for wilful negligence



Mark Tantam, Deloitte & Touche: We are in uncharted territory

"Face-to-face contact with customers has reduced for banks and other financial institutions as more people have moved to telephone and postal banking. This is likely to continue with the spread of the Internet, the establishment of call-centres and greater automation. The identification of suspicious transactions is therefore an increasing challenge for banks and other institutions."

Speaking in August last year at the release of annual suspicious transaction reports, Mr Blezzard, who oversees the work of a new Terrorist Finance Team set up by the NCIS after the September 11 attacks, was concerned by the high number of financial institutions that had yet to report any suspicious transactions.

"Many organisations [in the banking sector] disclose very few, if any, suspicious transaction reports. For example, out of 575 registered banks only 170 institutions made any suspicious transaction reports during 2000. This means that less than 30 per cent of banks reported to the Economic Crime Unit at all in this period."

In October 2001 financial institutions reported four times as many suspicious transactions as for the same period in the preceding year.

To date, some of the most detailed public information on what institutions should be looking for has come from the Paris-based Financial Action Task Force (FATF), which publishes case studies and 'typologies' of current techniques used by criminals to hide their financial activity. Following the September 11 attacks, the FATF has been charged by the G7 with co-ordinating the international effort against terrorists' financial networks.

In February, following its plenary meetings in Hong Kong, the FATF published updated guidelines designed to help financial institutions recognise terrorist accounts. FATF president Clarie Lo says the detailed guidance on the techniques and mechanisms used in terrorist financing provided by the latest guidelines will help to focus banks' contribution in the war against terrorism. The FATF has also issued eight special recommendations to governments designed to combat terrorist activity.

However, some question whether the task force has adequate financial resources to co-ordinate the complex global war against terrorists' financial networks. With a budget of slightly more than £500,000 and a permanent staff of just five, the task force has done impressively well to make the impact it has on money laundering. However, when asked about the timing of the FATF's new guidelines on terrorism, Mrs Lo, who also heads Hong Kong's anti-narcotics squad, mentioned the heavy workload already facing the task force. "Our budget is an issue and needs to be addressed at the next meeting," she said in an interview just before the February plenary meetings. ●

Charles Piggott is an independent financial journalist.

reports against lists of names of terrorist suspects published by the US government, the United Nations and national governments around the world.

"There is a lot of uncertainty," says Mark Tantam, head of European Forensic Investigations at Deloitte & Touche. "We are in now uncharted territory. Nobody quite knows where this process is going to end up. One of the difficulties is that in some cases the lists have only the barest facts – the name of the individual and in some cases a date of birth or address."

Since many names on the UN and other lists are common, large financial institutions have been faced with several thousand 'hits' from searches of their client databases and have been reluctant to vary the spellings of names on the list. This presents obvious problems, particularly with Arabic names. Banks are also concerned that if they mistakenly freeze assets of an innocent but similarly named client they will be liable to legal action. Meanwhile governments want institutions to go further in identifying and documenting the beneficial owners of accounts.

At a time of financial market uncertainty, the industry faces rising compliance costs. As one head of group fraud and money laundering prevention at a large bank says: "As the industry drifts away from face-to-face banking, it can no longer rely on traditional means of knowing its customers. A lot of institutions will have to spend heavily to get sophisticated systems in place, and this may cost thousands, possibly even millions of pounds."

Large banks may have departments of more than 20 people monitoring the hundreds of potentially suspicious transactions each day.

However, new technology has also helped terrorists to cover their tracks, according to Andy Blezzard, deputy head of the National Criminal Intelligence Service's (NCIS) Economic Crime Unit.

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With STP and T+1 now clearly on the horizon, never has the demand for integrated data been greater, and a significant slice of the estimated \$8 billion of future IT spend is already earmarked for data integration strategies. **Philip Manchester** explains the issues.

If all data were held in the same form, then the IT concept of multiple 'databases' would be unnecessary. All data would exist in a single database and the integration problems now confronting IT users of every kind would disappear. In other words, ideally the need for what we call 'data integration' would not exist.

Despite many attempts to impose a single, so-called 'normalised' form on data, a combination of IT industry competitiveness – and an unwillingness on the part of users to throw away their investment in IT – has created the equivalent of a Tower of Babel for data formats. Every database vendor uses a different proprietary data format and countless thousands of users have devised their own unique ways of storing their data files.

The spread of the Internet has resolved part of the problem by promoting common data formats for multimedia data such as text, graphics, photographs and audio. But this does not help solve the problems accessing the traditional structured data held in organisational databases. Indeed, the Internet may actually have added to the problem by opening up the potential for access to data and thus placing greater demands on database management systems.

Modern financial trading systems rely heavily on a plethora of different database regimes, covering everything from external data feeds and competitive market intelligence sources to the operational applications in the front, mid and back office.

Historically these systems have grown piecemeal to meet specific changes in the market and to take account of new technologies. They have evolved on different computer platforms with different database regimes and, often, custom-built or proprietary application packages. Now the drive is on to bring them together – or at least enable them to communicate with each other easily and efficiently.

There is good reason to do so. The structural changes to the international financial trading markets wrought by the Internet in the 1990s, combined with regulatory changes, increased globalisation and competition, all demand integrated data sources and the IT structures to support them. Now, with the beginnings of a shift to straight-through processing (STP) and the looming spectre of a one-day settlement period mandated by the US 'T+1' initiative, never has the demand for integrated data been greater.

Fred Meyer, chief strategy officer at the US IT infrastructure software company Tibco, compares the impact of T+1 to the introduction of digital feeds in the 1980s.

"It is certainly as big a change as the digitising of feeds and it affects everyone across the whole global financial system," says Mr Meyer. "Even if you are not trading in the US you are still going to be affected by it."

It is estimated that the finance sector will spend as much

as \$8 billion on upgrading systems to meet the demands of T+1; a significant slice of this will go on data integration strategies.

In parallel the move to STP also demands significant investment and a lot of data integration. STP by its very nature demands integrated data. For STP to work, front, mid and back office applications must operate as a seamless continuum with data passing back and forth in real time. There is much integration work still required to enable STP, however.

"On the IT side it is about incompatible systems all over the place," explains Jerry Norton, director of strategy at Logica. "The back office is completely mismatched with the front office and delivers poor quality data. STP will be difficult because of this."

His colleague Mike Zehetmayer, a client partner with Logica Consulting, adds that there is a fundamental problem with many back office systems.

"Back office systems are still mostly batch systems and this cannot support the level of technology needed for STP or T+1," says Mr Zehetmayer. "This will require a lot of investment and there is already a big difference between the buy side and the sell side. Sell-side operators are well down the line but there are lots of different packages on the buy side."

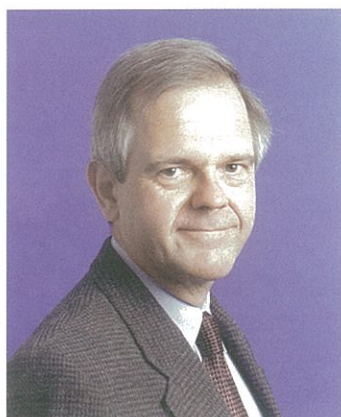
STP is, of course, only one step towards meeting the anticipated processing load that will flow from shorter settlement times. Although T+1 settlement is a US initiative, the international nature of trading markets means it will have an impact far beyond the boundaries of the US and it will be only a matter of time before other markets follow suit. Indeed, there is already talk of T+0 – real-time settlement – which will place an even higher priority on integrated data and processing systems.

The dream of a single, common data format is, of course, impractical – indeed at this advanced stage in the

For STP to work, front, mid and back office applications must operate as a seamless continuum with data passing back and forth in real time



Jerry Norton, Logica:
Incompatible systems everywhere will make STP difficult



Fred Meyer, Tibco: Even those not trading in the US will be affected by T+1

development of IT systems, it is probably near-impossible and inappropriate. There are signs, however, that the trend towards common communications initiated by the use of Internet standards is expanding into more industry-specific areas. The US Securities Institute Association (SIA) lists no less than 18 current standards creation initiatives in the financial services industry aimed at providing common data formats. These range from the SIA's own Market Data Definition Language (MDDL) and Swift's SWIFTML to Sungard's Network Trade Model (NTM) and Thomson Financial Services OASYS FixML, FpML, FinML.

These initiatives are based on the emerging Internet data formatting standard, eXtensible Mark-up Language (XML), which extends the standard approach of the various Internet formatting standards. While HyperText Mark-up Language (HTML) enables web pages to be described in a common format, XML allows the same facility for structured business documents such as orders and invoices.

XML looks set to become widely accepted, with strong backing from all of the major computer systems vendors and leading software developers. Facilities to translate XML-based formatting information are being added to existing systems and are now included in new applications as a matter of course.



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Software developers, from IBM, Microsoft and Oracle on down, are including XML in their 'middleware' to enable better communications between applications on different computer platforms.

Wide acceptance of XML does not necessarily mean that it will succeed, however. Traditionally the finance sector has found it difficult to collaborate and, although early signs from the activities of the various standards working groups are optimistic, there are doubts over whether the standards will prevail.

"The securities industry is notorious for its lack of standardisation," says Logica's Jerry Norton. But, he adds, there are signs of change. "The year 2000 and euro efforts were an opportunity for a consolidated response and the work on MDDL is a good example of co-operation – but there is still a long way to go," Mr Norton explains.

While the Internet has shown that standardised data formats benefit all, it is only part of the story, however. The

need for integrated data cuts across many different levels of IT activity.

In the front office the demand is for integration of data feeds and market intelligence sources with operational systems. In the back office it is for connectivity with settlement services. Planners and strategists want to see a wide range of data and information technologists, of course, also have their own sound, technical reasons for lower level integration.

Inevitably, this broad spectrum of IT applications requires different approaches to the problem of data integration. This is not a trivial problem. The process of defining exactly which data need to be integrated is only the beginning – and this is itself a significant task. The MDDL project alone, for example, is of a scale which, last year, prompted James Hartley of Reuters, co-chair of the MDDL technical committee, to compare it to the Human Genome Project.

"While, perhaps, not as monumental as the Human Genome Project (HGP), mapping all market data is a ponderous enough task – entailing the appropriate sequencing of data, vendors, and users – that many would not consider it possible," says Mr Hartley. "The goal of Market Data Definition Language (MDDL), is to map all market data into a common language and syntax to facilitate the interchange and processing of this complex and voluminous data set. Unlike the 15-year planned lifetime of the HGP, however, fewer than 15 months have been allotted to define and implement MDDL within the financial industry."

The early signs are that MDDL and parallel efforts in other areas of data integration are now well advanced. The job in the run-up to the June 2005 deadline for T+1 will be to rally the diverse spheres of influence around the flag of standardisation to ensure the transition goes as smoothly as possible.

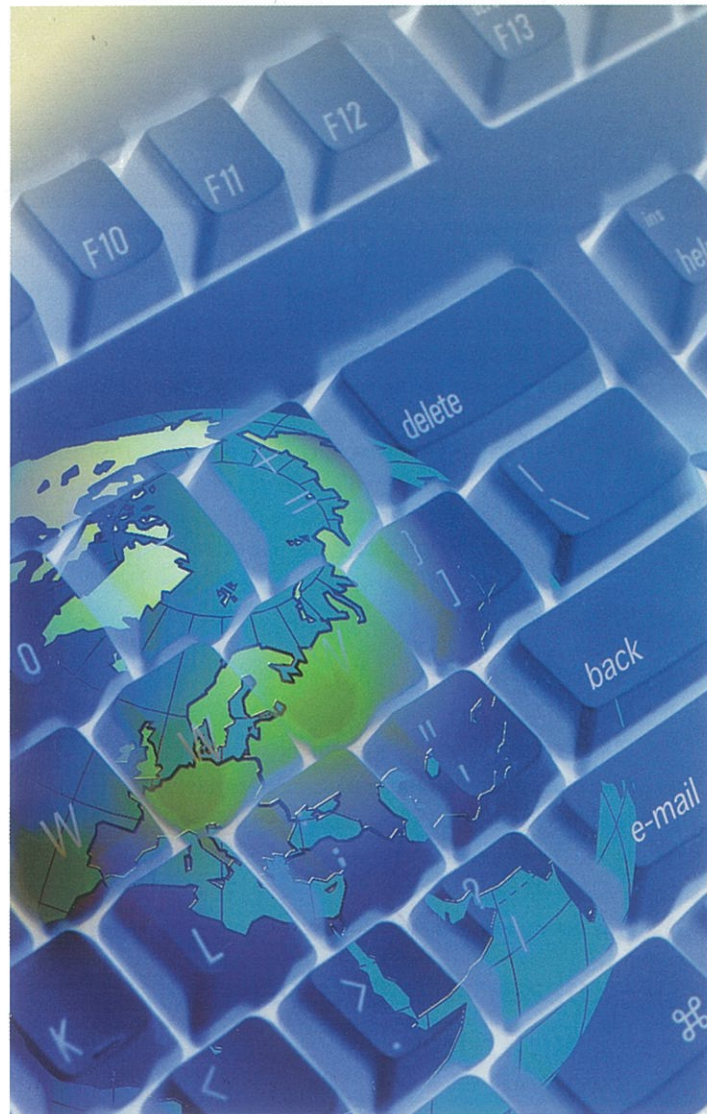
Jerry Norton at Logica points out that it is not only the demands of regulators and international competitiveness that mandate integrated IT; operational risk requirements also demand it.

"The Basel requirements on operational risk mean that IT systems will have to be more integrated," notes Mr Norton. "It also provides another justification for the investment."

So the task of bringing data together now has a deadline. While it is not immutable like Y2K, the T+1 deadline is a powerful incentive for action. This year will see the first tests and the first indications of success or failure. ●

Philip Manchester is a regular contributor to the Financial Times IT Review.

This is the second of a series of articles examining technology issues. If any readers have topics they would like S&IR to address, please contact the editor.



Keeping a cool head

Tony Watson, the new head of Hermes Pension Management, thinks dividing the industry into warring tribes is a waste of time. All players – fund managers, company directors, pension scheme trustees – should discharge their specific responsibilities to the best of their ability and communicate them to their fellow players. He spoke to Clare Gascoigne.



TONY WATSON

It has been an extraordinary year for pension funds. A world that for many remains cloaked in mystery has been blown apart by a dramatic court room drama, a major government investigation and a seismic shift in asset allocation thinking.

But Tony Watson, who took over last July from Alastair Ross Goobey as chief executive of Hermes Pensions Management, the pension fund manager with nearly £50 billion worth of pensioners' money to invest, remains unfazed by all the turmoil.

Take the courtroom drama between Unilever and its fund manager Merrill Lynch which, according to the *Financial Times*, "has triggered a fundamental shift in the power relations in the industry". Yet Mr Watson says simply: "The immediate impact of the case should be in the compliance department."

The case prompted a media field day – partly because the chief protagonists were women. But, setting aside the lengthy debates on whether Merrill's Carol Galley was better dressed than Unilever's Wendy Mayall, important issues of responsibility and power were raised. Experts predicted that fund managers would become increasingly wary of taking risks, for fear of following Merrill into the courts. An increase in closet tracking and a wave of litigation was due to wash over the industry.

Again, Mr Watson does not agree. "I am not of the view that it will lead to more cautious investment. The case was about negligence, not



▶ breach of contract; Unilever's complaint was that Merrill had not been following the process, had not been paying attention. Everyone in the industry will be examining their processes – and paying particular attention to whether those processes are being followed, and are being seen to be followed."

Nor does he have much truck with the idea that fund managers are to blame. "There is a responsibility on the client here. The client sets out certain risk parameters; it is then up to the client to make sure the manager is doing his best to add value, not just being a closet tracker."

Tony Watson is big on responsibility. It is a word he uses often and one suspects he would take a dim view of the 'compensation culture' growing up in the UK. Instead, he regards all players in the industry – fund managers, company directors, pension scheme trustees – as having specific responsibilities that they should discharge to the best of their ability and communicate to their fellow players. Hermes' role is that of stewardship, he believes.

"The message I'm trying to get across here is that we are all involved in a joint enterprise. The separation of [corporate] management and ownership has led to a feeling that directors and shareholders are on two different sides – that's stupid."

He believes firmly in active shareholding, and Hermes has used its muscle on a variety of occasions in the past year. Hotel group Six Continents (formerly Bass) felt the chill wind of disapproval in January, when Hermes rallied institutional investors in a complaint that the company was spending too much on acquisitions and not making a good enough return on capital for its investors. Caledonia Investments came under fire for its corporate governance within a couple of months of Hermes taking a stake; the

pension fund manager applied pressure to get Caledonia to separate the roles of chief executive and chairman.

Indeed, Hermes even has a subsidiary, Hermes Focus Asset Management, whose brief is to invest in companies where performance is poor, and where shareholder action could help stop the companies from drifting.

"There is progress to be made on communication," says Mr Watson. "But let me be clear here. I'm not interested in getting involved in the day-to-day running of the companies. That should remain firmly in the hands of the directors. But it is important that we have the ability to agree or disagree with the corporate strategy."

Part of the drive lies in the fact that Hermes is a believer in passive fund management (albeit with a bit of spice on the side). When you are tracking an index, you cannot walk away from those companies with problems; you can only try and make them better.

In a letter to the *FT*, Mr Watson wrote: "We take the attitude that we are the agents of the owners of companies and that assets which have good owners will, in the long run, be more valuable than those without... there are going to be occasions when issues of such strategic significance arise that we would be derelict in our duty if we did not exercise our judgement and intervene."

But he stresses that he does not see this in adversarial terms. "I repeat, we're involved in a joint enterprise here – we're on the same side. We are interested in enhanced values to discharge our liabilities."

Moreover, as he points out, those liabilities are absolute; they are not denominated in terms of a performance benchmarked against an index.

.....
"The separation of [corporate] management and ownership has led to a feeling that directors and shareholders are on two different sides – that's stupid"

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LEADERS IN
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"Integrity the key to investment success" – Rosalind Wright tells Securities Institute award winners

The Securities Institute held its 9th Annual Training & Qualifications Awards Ceremony in the sumptuous location of the Café Royal on 26 November 2001. The evening was attended by over 220 members of the Securities Institute who came to see the winners of the Diploma, IAC and IAQ awards presented with their prizes by the guest of honour, Mrs Rosalind Wright, director of the Serious Fraud Office.

Geoffrey Turner, chief executive of the Securities Institute, opened the proceedings by reminding the

Securities Ltd – The Award for Special Achievement, sponsored by the London Stock Exchange; and

- Cheryl McGinley, Isle of Man Financial Supervision Commission

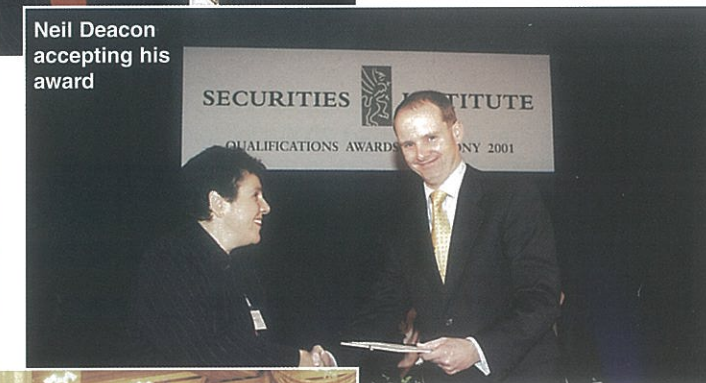
Peter Minchin, chairman of the Securities Institute Examinations Board, then commended the prize winners for putting in the extensive time and effort needed to pass the exams, especially

thanks to the members of the Securities Institute themselves, who have offered overwhelming support in making sure the qualifications are updated in time for N2. Thanks were also offered to the sponsors of the awards themselves.

Rosalind Wright's speech followed the presentation of the awards. She offered a word of advice to all of those working in the financial services industry: 'Integrity'. "If you act with integrity, you will be a conspicuous success in investment business," she said.



From left to right: Peter Minchin; Rosalind Wright and Geoffrey Turner



Neil Deacon accepting his award



– The Securities Institute Regional Award.

The overall award winner for the Investment Advice Certificate was Isla Skilton, HSBC Trust Company and the overall award winner for the Investment Administration Qualification was Darren Baker, NatWest Private Banking.

in an era where work is so demanding and free time is at such a premium. He also echoed Geoffrey Turner's comments by praising the Qualifications Department of the Institute for all their efforts in the run up to N2, ensuring that all the examinations come into line with the new regulations. Mr Minchin gave his

Speaking about financial fraud, Ms Wright continued, "Financial fraud is not a victimless crime. In the case of Barlow Clowes, 16 victims committed suicide and many of our cases involve widows and orphans where unsophisticated people entrust their life savings to the clutches of rogues."

She concluded by applauding the achievements of the prize winners: "You have done tremendously well to win these very coveted and prestigious awards. I congratulate you all and give you my very best wishes for an enormously successful future."

Following the ceremony, the award winners and assembled guests attended a reception, accompanied by a jazz band.

"People are going to continue to save and they need investment management as a business to help them deploy those savings"

Hermes, which was formerly PosTel, is the investment management subsidiary of the BT pensions scheme and manages assets of four of the seven largest UK pension funds. It has more than a million people depending on it for their future income – future pensioners who have a right to a set amount of money on a set date. Mr Watson's view is rooted in that reality.

He remains firmly in favour of equity investment, however, unlike some of his peers. As market volatility increases and a new accounting standard (FRS17, which requires companies to incorporate pension funds in their accounts, potentially hitting the profit and loss account), begins to bite, the pensions industry has been seeing a sharp change in asset allocation, away from equities towards bonds. Boots' pension fund even went so far as to shift its entire portfolio into bonds at the end of last year; the ultimate in investment caution.

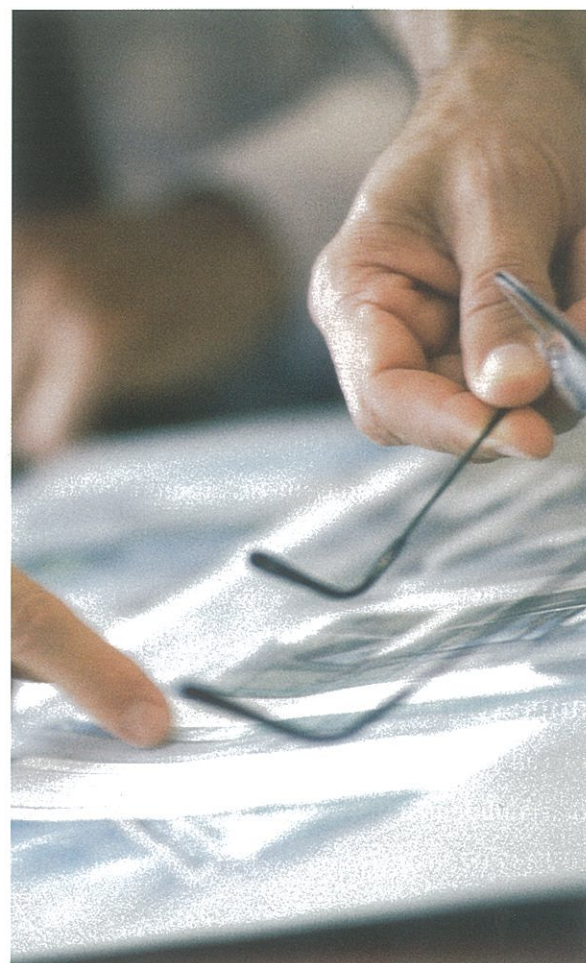
But Mr Watson says: "Unless the theory that equities will provide better returns than bonds because of their higher risk is bunkum, it is still worth being invested in equities. People will look for a more secure return, and there is a continued seeking of areas that add value. But it is allied to finding the specialist products, such as commodities or hedge funds, that add extra return."

"Sponsors" he adds, "have taken the view that they don't want to be in the pensions business, because changes in the pension scheme can have a significant effect on the company. They are trying to minimise the effect of volatility. But investment is all about diversification and risk."

Not that Hermes is immune to industry trends; it did shift a little more of its portfolio into bonds last year. But it also went out on an equity bargain-hunting spree just after the September 11 terrorist attacks in New York and Washington.

Mr Watson is sanguine about the future of fund management, despite the pressure on all sides. "People are going to continue to save and they need investment management as a business to help them deploy those savings," he says. "There's an admin function to this: how do I get my money into the market in a cost-effective way? And that's what we do."

The idea of Hermes, one of the biggest pension fund managers in the UK, simply as a back office service is startling – and ridiculous. But Mr Watson's willingness to go back to basics, when the rest of the industry is in a state of turmoil, is remarkably refreshing – and reassuring. ●



New publication

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Entry applications soar for Securities Institute's CertIM™

Securities Institute successfully launched their new qualification, Certificate in Investment Management (CertIM™) in January 2002. There has been a flood of bookings for the new workbooks, courses and examinations with the first exam due next month on 4 April 2002.

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Securities Institute is offering a special offer on purchases of the workbooks and courses and is only valid until 31 July 2002. To take advantage of this launch promotion call now on +44 (0) 20 7645 0680 or visit: www.securities-institute.org.uk.

Regional Roadshow programme 2002

Throughout April, the Qualifications & Membership Department will be holding a series of Regional Roadshows to examine issues of topical importance to the financial services industry. Additionally, we also intend to update you on many of the new developments taking place at the Institute.

The first series concentrated on N2, and took place in various cities throughout Britain. As we intend to cover as much of the country as possible, the forthcoming series will take place in many of the regional centres not visited last year.

The forthcoming programme, entitled Training & Competence – Practical guidance on building a fully compliant regime in your firm will feature presentations by Deloitte & Touche and will cover the following:

- FSA's rules and responsibilities
- How it works and how it fits into the new regime
- Implementation
- Defining responsibilities
- Standardising the new regime across the company
- Toolkits and how to use them
- Supervision and monitoring
- Record keeping

Full details will be mailed to you soon.

Student Study Buddy

Would you like to study with a fellow student or group of students, to enhance your chance of passing first time round, or have you recently passed the diploma and would be willing to share your knowledge and experience.

If you are sitting a Diploma paper and would be interested in joining a study group or becoming a study buddy then please call the Membership Department on +44 (0) 20 7645 0650 and we will put you in contact with a fellow student.

Membership Certificates 2001

The Securities Institute would like to thank our members for their patience whilst waiting for the newly designed membership certificates to arrive. There is no longer a charge for these certificates, and each new Affiliate, Member and Fellow is sent a certificate in their membership welcome pack. We have made every effort to issue certificates to our members dating back to June 2000. If you have not received a certificate and would like one, please contact the Membership Department on +44 (0) 20 7645 0650.

Wanted – London Committee

Do you have an interest in the events and activities that the Securities Institute runs for London?

The Securities Institute is looking to set up a London Regional Committee in line with other regions around the country – and we are needing some volunteers to help!

Here is an opportunity to represent your views and the views of your colleagues to the Securities Institute, as well as help promote interest in the Securities Institute and generate membership.

If you are an enthusiastic member and would like to be involved in the London Committee please contact us for further information on +44 (0) 20 7645 0660.

National Continuing Learning programme 2002-2003

*A new approach to professional development
for the financial services industry*

Continuing Learning is a key aspect of the Institute's strategy for enabling members to maintain their professional competence. To achieve this, the Institute has constructed a programme of Technical Updates that will be one of the widest ranging in the financial services industry. The programme is flexible and covers five industry sectors:

- Private Wealth Management
- Regulation & Compliance
- Operations
- Institutional Fund Management
- Investment Banking

Between twenty five to thirty Continuing Learning events, designed to keep members and practitioners up to date with technical and topical subjects, will be staged – nationwide – to serve each of the five sectors, and practitioners can select sessions from any of these areas to suit their knowledge requirements. Those involved in training can also utilise the programme, either to devise an educational programme for staff or to augment an internal training programme.

The National Continuing Learning programme represents an enormous increase in the volume of professional events the Institute organises, and should go a long way towards helping practitioners meet their firms' own CPD requirements.

Forthcoming highlights include:

- David Jackman, head of industry training at the FSA, talking on Regulation and the need to refresh knowledge;
- a series of Updates by PricewaterhouseCoopers entitled Saving your clients money – Current issues in taxation; and
- Brian Tora (Gerrard Limited) on Investment management in Europe.

If you require further information on the forthcoming programme, please do not hesitate to contact either Ged O'Mara or Mark Thomas on +44 (0) 20 7645 0650, or email mthomas@securities-institute.org.uk.

SI Select Benefits

Hopefully by now you would have visited the members area of the new Securities Institute website and gone to SI Select Benefits.

SI Select Benefits was launched in February and gives members the opportunity to save time and money, whether at work or in your own leisure time by offering you discounts on a diverse range of products and services.

An example of discounts available are:

- 100 per cent off joining fee for David Lloyds Health Clubs;
- 15 per cent off your current car insurance premiums (this applies to the renewal premium of your expiring policy); and
- 20 per cent off your current home insurance premiums (this applies to the renewal premium of your expiring policy).

...and many, many more.

Please check out the website by going to www.securities-institute.org.uk.

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J P Morgan Limited

Steven Metcalfe SIAff
Hitchins Harrison & Co

Elizabeth Middleton SIAff
Gerrard Limited

Dawn Miller SIAff
Charles Schwab Europe – BOPS

Kriengkral Mongkolthant SIAff
Tisco Securities UK Ltd

Robin James Morton SIAff
Vartan & Son

Guy Moule SIAff
Close Wealth Management Limited

Kenneth Murray MSI
Edinburgh Fund Managers plc

Paul Mutlow SIAff
Credit Suisse Asset Management Limited

Yvonne Nicol SIAff
Aberdeen Asset Management Plc

Olagbuyi Oduniyi SIAff
Deutsche Bank

Neil Osborne SIAff
UBS Warburg Operations

Nicky Parsons SIAff
UBS Warburg Operations

Alpit Patel SIAff
HSBC Investment Bank Plc

Daniel Patridge SIAff
Seymour Pierce Bell Limited

Nigel Pavey MSI
Charles Stanley & Co Limited

Stephen Payne SIAff
HSBC Investment Management

Sarah Pepperle SIAff
Cater Barnard UK Ltd

Thomas Pool MSI
State Street Trustees Limited

Russell Pope MSI
Peel Hunt Plc

Andrew Potts SIAff
WestLB Panmure Limited

Cameron Purcell MSI
Alex Picot Chartered Accountants

David Purvis SIAff

Stephen Putz SIAff
Bisys Fund Services

Linda Quarrie SIAff
The Treasury, Isle Of Man Government

Vanessa Rayne SIAff
Teather & Greenwood Limited

Timothy Read SIAff
Goldman Sachs

Daniel Regan SIAff
UBS Warburg Operations

Caroline Rendall SIAff
UBS Warburg Operations

John Rennie MSI
Computershare Investor Services Plc

Martin Rigg SIAff
Scottish Provident International Life Assurance Limited

Joan Robertson SIAff
Abbey National Financial & Investment Services Plc

Marie Robinson SIAff
Brown Shipley & Co Limited

Elaine Robson MSI
Scottish Widows Investment Partnership Ltd

Jonathan Rowland SIAff
Truro Stockbrokers Ltd

Nandita Sahgal SIAff
John East & Partners Ltd

David Sanderson SIAff
Morgan Stanley & Co International Limited

Katherine Saville SIAff
Man Investment Products Ltd

Ben Sayles SIAff
CRESTCo Limited

Frank Schafft SIAff
UBS Warburg FX

Caterina Schluenz SIAff
Fidelity Investments Services Ltd

Raymond Scott SIAff
Ashburton (Jersey) Ltd

Shireen Seakhoa-King SIAff
J P Morgan Limited

Neil Sewell SIAff
Schroder Salomon Smith Barney

George Shaw SIAff
Hichens Harrison & Co

Tim Shelly SIAff
AON Capital Markets

Peter Shepherd MSI
National Australia Bank

Jackie Shute SIAff
Sterling International Brokers Ltd

Pauline Slevin SIAff
BWD Rensburg Limited

Jeremy Smith MSI
7 City Learning

Emma Snelling SIAff
Clerical Medical International

Ian Staples SIAff
SSY Futures

Kimberly Strand SIAff
Cargill Investor Services Limited

Sinead Stringwell SIAff

Julia Stuzer SIAff
Rathbone Investment Management Limited

Bjorn Thaler SIAff
Schroder Salomon Smith Barney

Colin Thomas SIAff
Hichens Harrison & Co

Matthew Thomas SIAff
J P Morgan Chase & Co

Stephen Totten SIAff

Glenn Townsend SIAff
UBS Warburg Operations

Adrian Vanderspuy SIAff
Merrill Lynch

Hugo Vanhagen SIAff<

Securities Institute is the supporting association for Securities World Exhibition

Barbican Exhibition Halls, London
17-18 April 2002

Securities World is a new concept in exhibitions for the securities industry. The event will bring together key decision makers from the front, middle and back office functions of both equities and fixed income markets.

It is the first ever exhibition-based event to be held in London specifically serving the increased information needs of the securities industry and its customers.

There will be over 70 leading suppliers of products and services to the financial services sector on view at the exhibition.

25 per cent discount to Affiliates, Members and Fellows of the Securities Institute for the seminar programme.

The event is designed specifically to address the key issues that are currently reshaping and redefining the roles of front, middle and back offices in the equity and fixed income market organisations. Seminars will be held immediately adjacent to the exhibition hall and will address issues including:

- developments in the equities market – how to capitalise upon easier access through the growth in alternative products;
- custodial issues – how to survive in an increasingly competitive marketplace;
- straight-through processing/clearing and settlement – latest strategies to maintain competitive edge in light of changing European infrastructures and the affects of globalisation;
- risk management – how to quantify and effectively manage risk; and
- developments in the bond markets – Assessing the implications of a move towards a unified marketplace.

The Securities Institute can be found at Stand 15 where all SI products can be viewed. There will also be live demonstrations of Advancer and SI Online Update. Staff will be on hand to answer any queries.

To register for the exhibition visit: www.securities-institute.org.uk/conferences or www.securitiesworld.net.

Wealth Management Toolkit

The Securities Institute, in association with the Financial Services National Training Organisation (FSNTO), has developed the Wealth Management Toolkit which aims to help companies understand and implement the FSA's Training and Competence requirements. FSA's Training and Competence regime applies across the organisation – from the chief executive to support staff – so it is vital that everyone knows their obligations.

The Toolkit sets out specific and practical guidance on implementing an effective training and competence regime. It highlights best practice on competency statements, job descriptions and the recruitment process. It further seeks to help firms in their assessment of an individual's competence and sets out the training programmes available to attain and maintain that competence.

Although the Toolkit is designed with wealth management firms in mind, much of the content is generic and so will also be of interest to all those responsible for training and competence in the financial services industry outside the wealth management area.

The Toolkit is free to members of the Securities Institute. To access of the Toolkit, please visit the Institute website on www.securities-institute.org.uk and go to the Members area under Membership.

March and April Courses

Date	Investment Administration Qualification (IAQ) £325 + VAT
11 & 12 March	IAQ – Portfolio Performance Measurement
11 & 12 March	Securities & Investment – An Introduction to
14 & 15 March	IAQ – Global Custody
18 & 19 March	FSA Regulatory Environment
18 & 19 March	Securities & Investment – An Introduction to
21 & 22 March	IAQ – CREST Settlement
21 & 22 March	IAQ – ISA & PEP Administration
25 & 26 March	FSA Regulatory Environment
25 & 26 March	IAQ – Private Client Administration
25 & 26 March	Securities & Investment – An Introduction to
25 & 26 March	IAQ – Unit Trust Administration
4 & 5 April	FSA Regulatory Environment
4 & 5 April	IAQ – Private Client Administration
4 & 5 April	Securities & Investment – An Introduction to
4 & 5 April	IAQ – Treasury Operations
8 & 9 April	FSA Regulatory Environment
8 & 9 April	Securities & Investment – An Introduction to
11 & 12 April	FSA Regulatory Environment
11 & 12 April	Securities & Investment – An Introduction to
11 & 12 April	IAQ – Unit Trust Administration
15 & 16 April	FSA Regulatory Environment
15 & 16 April	IAQ – Portfolio Performance Measurement
18 & 19 April	IAQ – Global Custody
22 & 23 April	Securities & Investment – An Introduction to
25 & 26 April	IAQ – Exchange Traded Derivatives Administration
25 & 26 April	IAQ – ISA & PEP Administration
29 & 30 April	IAQ – CREST Settlement
29 & 30 April	FSA Regulatory Environment
29 & 30 April	Securities & Investment – An Introduction to

Date Training courses

Fixed Income Programme

4 March	Introduction to Bonds £495 + VAT*
5 & 6 March	Understanding Bond Markets £695 + VAT*
7 & 8 March	Understanding Swaps £795 + VAT*

10% Discount if all three courses are booked at the same time

13 March (pm)	Regulatory Refresher Workshop £195 + VAT*
13 March (pm)	UK Share Settlement £195 + VAT*
13 March (am)	UK Share Trading £195 + VAT*
14 & 15 March	Understanding Financial Statements £695 + VAT*
20 March	Understanding Derivatives £495 + VAT*
21 & 22 March	Introduction to Equity Analysis & Valuation Techni £795 + VAT*
27 March	Understanding Equity Markets £495 + VAT*
17 April (pm)	Regulatory Refresher Workshop £195 + VAT*
22 & 23 April	Understanding Repo Markets £795 + VAT*
24 April	Mathematics Refresher Course £295 + VAT*

*20% Membership Discount on all Continuing Learning Courses.

Forthcoming events

MANCHESTER

6 March
TECHNICAL UPDATE
Seminar: How to analyse shares – the latest thinking in stakeholder value models
Speaker: Andrew Black, Building Value Associates
Time: 12.30-2pm **Venue:** Tbc

LEEDS

6 March
TECHNICAL UPDATE
Seminar: How to analyse shares – the latest thinking in stakeholder value models
Speaker: Andrew Black, Building Value Associates
Time: 6-7.30pm **Venue:** Tbc

BIRMINGHAM

20 March
TECHNICAL UPDATE
Seminar: Investment Management in Europe – the latest techniques, products and asset allocation models
Speaker: Brian Tora MSI, Investment Communications Director, Gerrard Ltd
Time: 6-7.30pm **Venue:** Tbc

GLASGOW

27 March
TECHNICAL UPDATE
Seminar: Money Laundering – how can your firm stay clean?
Speaker: From the FSA (tbc)
Time: 12.30-2pm **Venue:** Tbc

10 April
TECHNICAL UPDATE
Seminar: Hedge Funds – the latest trends and developments
Speaker: Nick Paris MSI, Coronation International
Time: 12.30-2pm **Venue:** Tbc

EDINBURGH

27 March
TECHNICAL UPDATE
Seminar: Money Laundering – how can your firm stay clean?
Speaker: From the FSA (tbc)
Time: 5.30-7pm **Venue:** Tbc

10 April
TECHNICAL UPDATE
Seminar: Hedge Funds – the latest trends and developments
Speaker: Nick Paris MSI, Coronation International
Time: 5.30-7pm **Venue:** Tbc

LONDON

5 March
TECHNICAL UPDATE
Seminar: New messaging standards [ISO Standard 15022] – are you ready?
Speakers: Teresa Nolan and Navan Patel, SWIFT
Time: 6-7.30pm **Venue:** Tbc

11 March
TECHNICAL UPDATE
Seminar: Market abuse – practical guidance on applying new legislation
Speaker: Charles Abrams, Financial Services Partner, SJ Berwin
Time: 6-7.30pm **Venue:** Tbc

LONDON CONTINUED

12 March
TECHNICAL UPDATE
Seminar: Regulation and the need to refresh knowledge
Speaker: David Jackman, Head of Industry Training, FSA
Time: 6-7.30pm **Venue:** Tbc

19 March
TECHNICAL UPDATE
Seminar: Investment Management in Europe – the latest techniques, products and asset allocation models
Speaker: Brian Tora MSI, Investment Communications Director, Gerrard Ltd
Time: 6-7.30pm **Venue:** Tbc

20 March
TECHNICAL UPDATE
Seminar: The risks behind DVP
Speaker: John Gubert, Head of GP Securities Services, HSBC
Time: 6-7.30pm **Venue:** Tbc

26 March
TECHNICAL UPDATE
Seminar: Basel Committee – the 3rd consultation on the new Capital Accord
Speaker: Vishal VEDI, Senior Manager, Regulatory Practice, Deloitte & Touche
Time: 6-7.30pm **Venue:** Tbc

8 April
TECHNICAL UPDATE
Seminar: FSA Listings Rules – An update for practitioners
Speaker: Speakers from the FSA (tba)
Time: 6-7.30pm **Venue:** Tbc

15 April
TECHNICAL UPDATE
Seminar: Risk Management – rules and responsibilities. How they will help you identify problems within your firm.
Speaker: Dennis Cox MSI, Risk Reward Limited
Time: 6-7.30pm **Venue:** Tbc

18 April
10TH ANNIVERSARY DINNER
Speakers: Rt. Hon. Sir Edward George, Governor, Bank of England; Sir Howard Davies, Chairman, FSA
Venue: Guildhall
Time: Champagne reception 6pm; Dinner 7.30pm

(For further information on this event, please contact Hannah Willey on +44 (0) 20 7645 0614 or by email at hwilley@securities-institute.org.uk.)

22 April
TECHNICAL UPDATE
Seminar: How to analyse shares – the latest thinking in shareholder value models.
Speaker: Andrew Black, Building Value Associates
Time: 6-7.30pm **Venue:** Tbc

24 April
TECHNICAL UPDATE
Seminar: T&C for Operations Staff
Speaker: Clive Shelton MSI, Associate Director – Legal & Compliance, M&G
Time: 6-7.30pm **Venue:** Tbc

1 May
Compliance Officers Workshop
Theme: Money Laundering
Venue: Camomile Court, 23 Camomile Street, London EC3R 7LL
Time: 9am-2pm
(For further information on this event, please contact Daniel Hausherr on +44 (0) 20 7645 0613 or by email at dhausherr@securities-institute.org.uk.)

Unless otherwise stated: for further information on regional events, please contact Vanda Comeau on +44 (0) 20 7645 0658; vcomeau@securities-institute.org.uk. For London events, contact Ged O'Mara on +44 (0) 20 7645 0655; go'mara@securities-institute.org.uk. Alternatively, visit the Continuing Learning section on the Institute's website: www.securities-institute.org.uk.

New Institute Conferences in 2002

In the post-N2 environment, the need for financial organisations to keep up to speed with the industry's on-going regulatory and technological changes has become increasingly vital, and with this in mind, the Institute's series of executive networking conferences continues into the new year with a wide range of events to help provide a focus for discussion for the pressing securities and compliance issues of the day.

Upcoming conferences include the annual updates of Private Wealth Management and Training & Competence, alongside new events examining the changes in Senior Management Responsibilities and Business Continuity Management.

Reflecting the current market demand post-N2, the Institute's annual Money Laundering event in March has also now been expanded to a day and a half to answer the many practical compliance questions surrounding this topical issue and will also incorporate a hands-on workshop to provide hands-on training to understand the new regulatory requirements.

MONEY LAUNDERING PREVENTION 2002

25 March 2002
COST: £599.00 + VAT = £703.83
MEMBERS & AFFILIATES: £479.00 + VAT = £563.06

SENIOR MANAGEMENT RESPONSIBILITIES CONFERENCE

19 April 2002
COST: £599.00 + VAT = £703.83
MEMBERS & AFFILIATES: £479.00 + VAT = £563.06
EARLY BIRD DISCOUNT = £549 + VAT = £645

BUSINESS CONTINUITY MANAGEMENT CONFERENCE

26 April 2002
COST: £599.00 + VAT = £703.83
MEMBERS & AFFILIATES: £479.00 + VAT = £563.06
EARLY BIRD DISCOUNT = £549 + VAT = £645

TRAINING & COMPETENCE ANNUAL CONFERENCE

Mid May 2002
COST: £599.00 + VAT = £703.83
MEMBERS & AFFILIATES: £479.00 + VAT = £563.06
EARLY BIRD DISCOUNT = £549 + VAT = £645

Venue: The London Chamber of Commerce, 33 Queen Street, London, EC4R 1AP.

Call us now for further details on +44 (0) 20 7645 0680 or email us at clientservices@securities-institute.org.uk.

Further Conference & Seminar Information

If you have any questions about the events listed above, the Securities Institute Services, future topics, or would like to hear more about potential sponsorship and exhibition opportunities, please contact Alex Mitchell, Conferences & Seminars Manager on +44 (0) 20 7645 0725, or email him at amitchell@securities-institute.org.uk.

Compliance Officers' Workshop – Getting your money laundering compliance right: a practical approach

Wednesday 1 May 2002

Camomile Court, 23 Camomile Street, London EC3A 7LL

9am – 2pm

The provisional topics to be discussed at this event are as follows:

- The Hot Seat: The role of the Money Laundering Reporting Officer
 - Job description
 - Terms of reference
 - Company training methods
 - Structure of the Money Laundering function
- Who on earth is he? Identifying your new customer.
 - Wholesale/retail
 - Face-to-face/non face-to-face
 - Domestic/overseas
- Is everything under control? Monitoring compliance
- Owning up: the MLRO Annual Report

The workshop will take the form of an introduction to each topic followed by discussions between the group.

Price: £100 to include all documentation and refreshments including a buffet lunch.

If you would like to attend, please contact Daniel Hausherr on +44 (0) 20 7645 0613 or dhausherr@securities-institute.org.uk.

Retirement Income Reform Campaign (RIRC)

The RIRC was established to campaign to bring about greater flexibility in pensions provision. A major plank in the campaign is to scrap the compulsion on individuals to buy an annuity by the age of 75.

The Campaign has had a number of notable successes, including achieving the passage of a Private Member's Bill through its Commons 2nd Reading stage in January. The Campaign has also produced detailed analysis and statistics in a paper entitled 'Annuities and Taxation', which is available on the Campaign's website.

The Campaign is now looking for support in two areas. One is financial. Pursuing the campaign is costly and they are looking to companies to make contributions to continue the momentum.

Second, the Campaign wishes to encourage firms and individuals to respond to the Government's consultation paper on pensions provision, stressing the individuals need for freedom to choose investments to provide financial security in retirement and to protect the interests in particular of middle-range pension funds in the £100k-£150k range.

Further information is available on www.rirc.org.uk.

Financial Ashes Charity Cricket Tournament & Gala Dinner

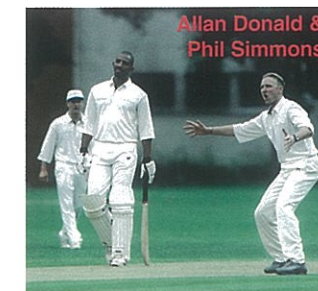
Thursday 18 July 2002

Honourable Artillery Company, City Road, London, EC1

SECURITIES INSTITUTE in association with PCA

The tournament between teams representing England, Australia and South Africa will, this year, raise money for: **SPARKS** (Sport aiding medical research for kids), **The St Vincent de Paul Society**, Australia and **The Nelson Mandela Children's Fund**, South Africa. The cricket will commence at 11am and the dinner at 7.30pm.

The Professional Cricketers' Association have kindly agreed to back us once again. Last year, professional players such as **Allan Donald**, **Phil Simmons**, **Steve Marsh**, and **Dean Headley** attended and guested for the sides in the matches. **Geoff Miller**, England selector spoke after dinner and **John Conteh**, former boxing champion, ran the auction.



Allan Donald & Phil Simmons

This year: Lunchtime barbecue – £10 per head. Tables for the gala dinner – £600 for a table of 10 (£60 a head). Beer and wine sold for charity throughout the day.

To book: contact Hannah Willey on +44 (0) 20 7645 0614, or email hwilley@securities-institute.org.uk.

Membership Admissions Policy

A number of changes have been made to the membership admissions policy, as follows.

New Members Subscription Fee

The subscription fee for Fellows, Members and Affiliates will be prorated in future depending on the date an application is received at the Securities Institute.

Join	1 April to 30 June	100%
	1 July to 31 September	75%
	1 October to 31 December	50%
	1 January to 31 March	125% (the following years subscription will be included)

Concessionary Fees

Concessionary fees are available to those unemployed, on maternity leave, working abroad or no longer working in the Industry at a rate of 50% of the annual subscription. They are applicable only to existing members.

Concessionary rates are applicable at time of renewal, and proof will be required in the form of official documentation at time of renewal. Concessionary rates are available for a maximum of two consecutive renewal years only, after which the full subscription fee will be due.

Membership Upgrades

For members moving from one category to another the following procedures apply:

● **Student to Affiliate/Student to MSI Member** – The student will have to complete the application form relevant for the category of membership they are applying for.

The fee will be: Joining Fee plus the subscription fee less their student fee (only applicable if not joining at 1 April). No pro-rata fees will apply.

● **Affiliate to MSI Member** – The affiliate member wishing to become an MSI Member must complete an upgrade form.

The fee will be: Upgrade fee plus the difference between the affiliate and membership subscription fee.

● **MSI Member to Fellow** – An MSI member wishing to become a Fellow (FSI) on completion of the relevant requirements must complete an upgrade form.

They will be charged an upgrade fee.

Reinstatement Fees

If you allow your membership to lapse or you choose to resign, the following reinstatement fees apply:

- **Rejoin in same of year of lapse** – No application form is required. No additional payment is due apart from your full subscription fee. No pro-rata arrangements apply.
- **Rejoin within 3 years of lapse** – Complete an application form and pay £25 administration fee as well as the full annual subscription. No pro-rata arrangements apply.
- **Rejoin after 3 years of lapse** – You need to join as a new member.

Payment Method

- **New members** – Payment is required by cheque or credit card. Firms with general accounts with the Securities Institute will be invoiced.
- **Renewals** – Individuals. The preferred method of payment is by direct debit, alternatively you may pay by cheque or credit card.

Firms with a general account will be invoiced. Payment can be made by cheque, BACS or CHAPS.

Please note that where members have their subscription paid for by their firm, but their firm does not hold an account with the Institute, the individual will be invoiced directly and settlement must be organized internally within the firm

Billing / Lapsing Timetable

1 March	Renewal invoices will be sent
1 April	Payment is due
30 April	Reminder will be sent out
31 May	Membership will be lapsed, which will be informed by letter

Students

Over the next year the student renewal date will be moved to the 1 April to coincide with annual membership renewals.

Students pay £50 to register as a student member at any time throughout the year, and then an annual fee, from now on due on 1 April. If a student joins after the closing date for the Winter Diploma sitting has passed the £50 registration fee will include the following years subscription fee.

If a student has not booked to take a diploma exam after two consecutive exam sittings, their student membership will be lapsed.

If you have any queries, or would like any further clarification please contact the Membership Department on +44 (0) 20 7645 0650.

New exclusive 'Members Only' area launched

Just in case you have not noticed, there is now an exclusive 'Members Only' area on the Institute's website. This can be accessed via Membership on the home page, and gives access to benefits just for you. The member's area contains access to:

- **online membership directory** – allowing you to get in touch with fellow members;
- **SI Select Benefits** – the new programme of benefits designed uniquely for members;
- **the Wealth Management Toolkit** – a new online tool to help you find your way around the new training and competence requirements from the FSA – published by the Securities Institute in association with the Financial Services National Training Organisation;
- **Regulatory Insurance** – a newly launched benefit giving you peace of mind should the unthinkable happen and you find yourself the subject of a regulatory investigation; and
- **Professional Interest Fora** – a series of groups comprising specialists interested in particular market segments eg compliance, risk management, operations...

Go now to www.securities-institute.org.uk to logon to the 'Members Only' area and find out more of the exciting new benefits available.

The David Hume Institute, Edinburgh

The David Hume Institute, sponsored by the Stewart Ivory Foundation, are holding a conference and series of seminars between March and May 2002.

One-day Conference:

- Friday 15 March *Regulating the risks and opportunities of globalisation of financial services.*

Seminars:

- Tuesday 26 March *The competitive pressure confronting the UK fund management industry*
- Wednesday 17 April *Fund management and global equities. How should the money be managed?*
- Tuesday 14 May *Governance and fund managers*

All seminars will begin at 6.00pm.

All events will be held at the Royal Society of Edinburgh, 22-26 George Street, Edinburgh.

If you would like further information on any of these events, please contact Kathy Mountain, The David Hume Institute – Tel: 0131 667 9609 or email Hume.Institute@ed.ac.uk.

Individual Regulatory Insurance for Securities Institute members

www.reginsurance.com

Further to the article in the last issue of *Securities & Investment Review* the new insurance scheme, developed by insurance broker, Blackmore Borley to provide protection for individuals against legal costs arising out of regulatory action by the FSA, is now available. The protection does not cover the fines or penalties which may be imposed, but it will cover both the individual's defence costs and those of the regulator, if they are imposed on the individual. Money paid out under the policy is not refundable to the underwriters even if the individual's defence is ultimately unsuccessful.

The scheme is available online at www.reginsurance.com as well as by phone and post.

Premiums range from £240 for £100,000 cover, to £555 for £1 million cover for those in senior positions. **In a special deal with the Securities Institute, Regulatory Insurance is being made available to members of the Institute at a 20 per cent discount on these normal premium rates.**

The benefits of the scheme are:

- it provides up to £1,000,000 of cover per individual;
- the underwriter cannot cancel the policy during its term;
- the policy remains in force even if the individual changes jobs;
- the policy pays the regulator's costs;
- payouts under the terms of the policy are not refundable even if the defence fails; and
- the policy covers an individual for three years after he or she retires, at no additional cost.

The scheme differs from others which have been introduced in a number of important respects.

- it is an individual's policy not a firm's;
- there is no reclaim of a payout to the underwriter if the individual's defence fails; and
- an individual is covered even if the disciplinary case arises from an investigation at a previous employer.

For Securities Institute members taking out the maximum cover, the discount will be sufficient to cover their annual subscription.

Membership Subscriptions 2002 – 2003

At the Institute's last Board Meeting, it was agreed to increase the annual membership subscriptions with effect from 1 April 2002.

The new rates for annual subscriptions are:

Member/Fellow	£120
Affiliate	£75
Student	£50

Membership subscriptions are due 1 April.

The timetable for the billing process this year will be as follows:

Invoices sent out:	1 March 2002
Payment due:	1 April 2002
Reminder sent:	30 April 2002
Membership lapsed for non payment:	31 May 2002

Please note that for unpaid subscriptions, membership will be lapsed promptly on the 31 May 2002. This is revised Board policy and we would ask you please to ensure that your payment is received by the due date.

Launch of the 2002 Financial Ashes

Who's wine is it anyway?



John Emburey helping with the raffle

Held at the Capital Club on Thursday 31 January, the Securities Institute hosted the launch of the 2002 Financial Ashes.

The launch consisted of a wine tasting challenge, with teams guessing which of the six wines available was being described by the panel of celebrity guests – John Emburey and Richard Dunwoody. Unfortunately the indomitable Eddie 'The Eagle' Edwards couldn't make it.

The evening was MC'd by Paul Taylor of the Securities Institute, who introduced each guest description and wine with jolly Golden-esque enthusiasm.

The gathering of 60 people spent the next three hours attempting to

tell the Iona Sauvignon Blanc 2001 from La Segreta Bianco, Planeta 2000 and the Painter Bridge Chardonnay 2000; the Chateau de la Tour 1999, Bordeaux from the MontGras Carmenera 2000 from Chile and the Geoff Merrill Shiraz 1999. Several tastings of each wine was required from each description to make sure of accuracy – at least that's what the teams said!

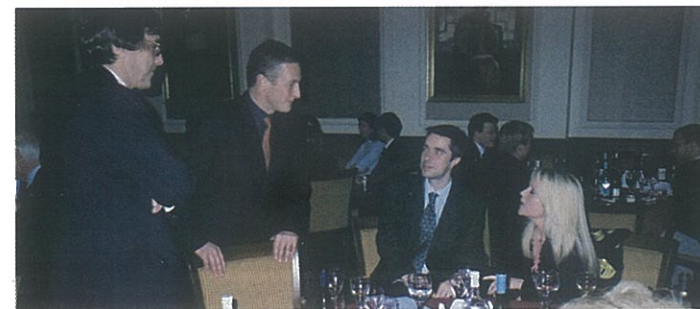
After the break for food, the three charities supported by the Financial Ashes Tournament 2001 – SPARKS (Sport aiding medical research in kids), The Nelson Mandela Children's Fund and the St. Vincent de Paul Society, Australia, were presented with additional cheques of just over £1,200 each – late contributions from the 2001 event which had raised a record amount of over £24,000.

Once all the tastings were over, a raffle was held – all the proceeds of which will be put towards kick starting the 2002 fund raising effort.

The winners of the challenge were Sharepeople who were presented with 20 bottles of the tasting wines to share between them.

The Institute would like to thank all those who helped make the evening such a success and especially Enotria Winecellars for contributing all the wine.

DON'T FORGET: The 2002 Financial Ashes Tournament and Gala dinner will be held on Thursday 18 July 2002 – see article on page 43.



Richard Dunwoody talking to guests

Securities Institute Quiz Night Sponsored by WJB Chiltern plc

Date: 29 November 2001 Venue: Mithras Wine Bar

"Romford! Romford! Romford!"

The second Securities Institute Quiz Night to be supported by WJB Chiltern was a thoroughly successful evening, particularly for the winning team from Calleo UK. 33 teams from a variety of City firms joined the fun. The lead was closely contested for many rounds, with a team from the Institute itself putting in a fair performance (despite one of its participants answering "Romford!" to every question), but the winners after 11 rounds with 99 points were the Calleo UK team of Andrew Diamond, Richard Ward, Matthew Diamond, Syd Pochin, John Gallagher and Roger Evans.

The other great success of the night was the fund raising. The raffle raised over £600 (one of the highest sums ever raised at an Institute Quiz Night) and was later presented to Helen Farquharson of SPARKS, a charity dedicated to giving children a healthy start in life.

Our sincere thanks go to W J B Chiltern who kindly supported the evening providing the shield and winners' prizes.

Continued Learning Programme 2002-2003

A new approach to professional development for the financial services industry

Continuing Learning is a key aspect of the Institute's strategy for enabling members to maintain their professional competence. To achieve this, it has constructed a programme of Technical Updates that will be one of the widest ranging in the financial services industry. The programme is flexible and covers five industry sectors (ie Private Wealth Management, Regulation & Compliance, Operations, Institutional Fund Management and Investment Banking).

Between 25 to 30 technical updates will be staged – nationwide – to serve each of the five sectors, and practitioners can select Updates from any of these areas to suit their training requirements. Those involved in training can also utilise the Updates, either to devise an educational programme for staff or to augment an internal training programme.

This represents an enormous increase in the volume of professional events the Institute has organised, and should go a long way towards helping practitioners meet their firms' own CPD requirements.

Forthcoming highlights include the FSA's David Jackman talking on Regulation and the need to refresh knowledge, a series of Updates by PricewaterhouseCoopers entitled Saving your clients money – Current issues in taxation and Brian Tora (Gerrard Limited) on Investment management in Europe.

If you require further information on the forthcoming programme, please do not hesitate to contact either Ged O'Mara or Mark Thomas on +44 (0) 20 7645 0650, or email mthomas@securities-institute.org.uk.

SECURITIES INSTITUTE

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10TH ANNIVERSARY DINNER GUILDHALL THURSDAY 18 APRIL 2002



In 2002, the Securities Institute will be ten years old and will be marking the anniversary at various events throughout the year.



The centrepiece of the 10th Anniversary celebrations will be a black tie dinner at Guildhall, at which the Rt Hon Sir Edward George, Sir Howard Davies and senior political, financial and business leaders will be present.

Tickets are priced at £125 per head and we expect demand to be high – as it was for our 5th Anniversary dinner in 1997 – so early reservation of places is advised. Details can also be found on the Institute's website: www.securities.org.uk.

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Please reserve places at the Securities Institute 10th Anniversary Dinner to be held at Guildhall on Thursday, 18 April 2002.

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PLEASE RETURN COMPLETED FORMS TO: Mrs Hannah Willey, Communications Executive, Centurion House, 24 Monument Street, London, EC3R 8AQ. Fax No: + 44 (0) 20 7645 0601

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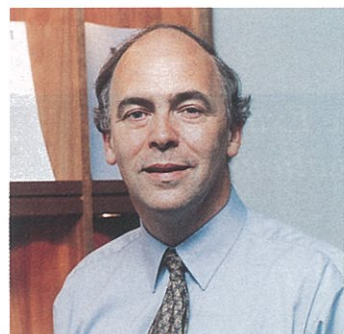


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Iain Saville

Iain Saville, chief executive of **Crest**, has resigned to join **Computershare** as European managing director.

Clive Baker, a managing director and head of the private equity advisory business at **Hawkpoint**, is leaving the corporate finance adviser.

Kevin Carter has joined **Watson Wyatt**, the international consultancy firm. He is the former chief executive of Old Mutual Asset Managers. He will be involved in advising the large pension scheme clients.

David Cranston, director general of the UK-based **National Association Of Pension Funds (NAPF)**, is set to resign at the end of this year.

Ian Cormack, chief executive of **AIG's** European insurance, financial services and asset management operations, is to leave the firm at the end of this year to launch his own financial management consulting firm with **Wendy Tansey**, a senior director at **AIG** in Europe.

JP Morgan Fleming Asset Management has appointed **Richard Titherington** as

head of its emerging markets equity business. He takes up the post from April 1. He replaces **Peter Clark** who joined **Schroder Investment Management** as global head of emerging markets.



Richard Grainger

Richard Grainger has taken over from John Llewellyn-Lloyd as chief executive of **Close Brothers Corporate Finance**, the European mid-market specialist advisory firm.

David Shaw Stewart, the former head of UK equities at **First State Investments**, has joined **McInroy & Wood**, an independent Scottish private client asset management boutique.

Tristan Mawdsley has joined **UBS Asset Management** as head of strategic alliances. He was formerly head of retail sales at **Schroders**. He will be responsible for unit-linked and white label business, working with life companies and other institutions. He will report to **Simon Goodge**.

Jeremy Thomas has left his position as associate director at **Schroder Investment Management** to join **Royal &**

SunAlliance Investments as a UK equities fund manager. He will specialise in managing money for institutional pension funds.

Andrew Shortland is moving from New York to London as head of international equity trading for **Bear Stearns**. He will report to **Eli Wachtel**, overall head of equity trading worldwide.

Phil Jones has been appointed by **Merrill Lynch** as head of equity-linked origination for Europe, the Middle East and Africa. He replaces **Walter Lewin** who left in December last year. Jones was chairman of global equity-linked origination and head of global equity-linked new product development. He will retain these roles in addition to his new responsibilities.

Robert Ogilvy Watson has been seconded to the **UK Takeover Panel**. He is a corporate partner at **Ashurst Morris Crisp**, the UK law firm.



Keith Lovett

Keith Lovett has joined **Clerical Medical Investment Management** as chief operating officer. He joins from **Prudential Pensions Management** where he was

operations director. **Craig Mackenzie** has left **Friends Ivory & Sime** for **Clerical Medical**, where he will join his former colleague **Gary Mairs**. Other new appointments for the company include **Rachel Crossley** and **Steve Way** as socially responsible investment professionals. They have also joined the firm from **Friends Ivory & Sime**.

Tim Lee has joined **Friends Ivory & Sime** as senior economist from **Invesco Asset Management**. The firm has also hired **Sophie Horsfall**, a fund manager, from **Dresdner RCM Global Investors**.

Yvonne Sonsino has been appointed a European principal to the UK international practice of **William M Mercer**. She is also an associate of the **Pensions Management Institute**. She will be responsible for advising a portfolio of multinational clients on international benefit issues.

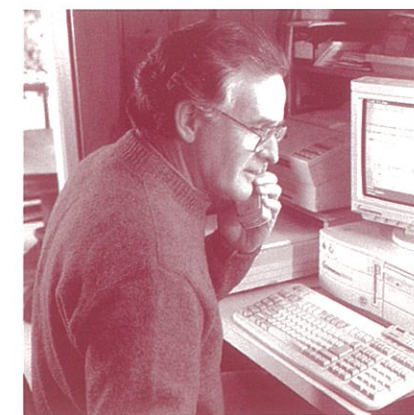
Gartmore has appointed **Steve Jones**, head of European equities, as a director, along with **Mark Robertshaw**, chief financial officer. The company has also recruited **Steen Steincke**, **Frances Davies** and **Paul Feeney** as business development executives.

Kenneth Taylor has been hired by **Jupiter Asset Management** to promote sales of the company's SRI products through independent financial advisers. He joins from **M&G**.



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