SECURITIES & INVESTMENT

REVIEW

NOVEMBER/DECEMBER 2013

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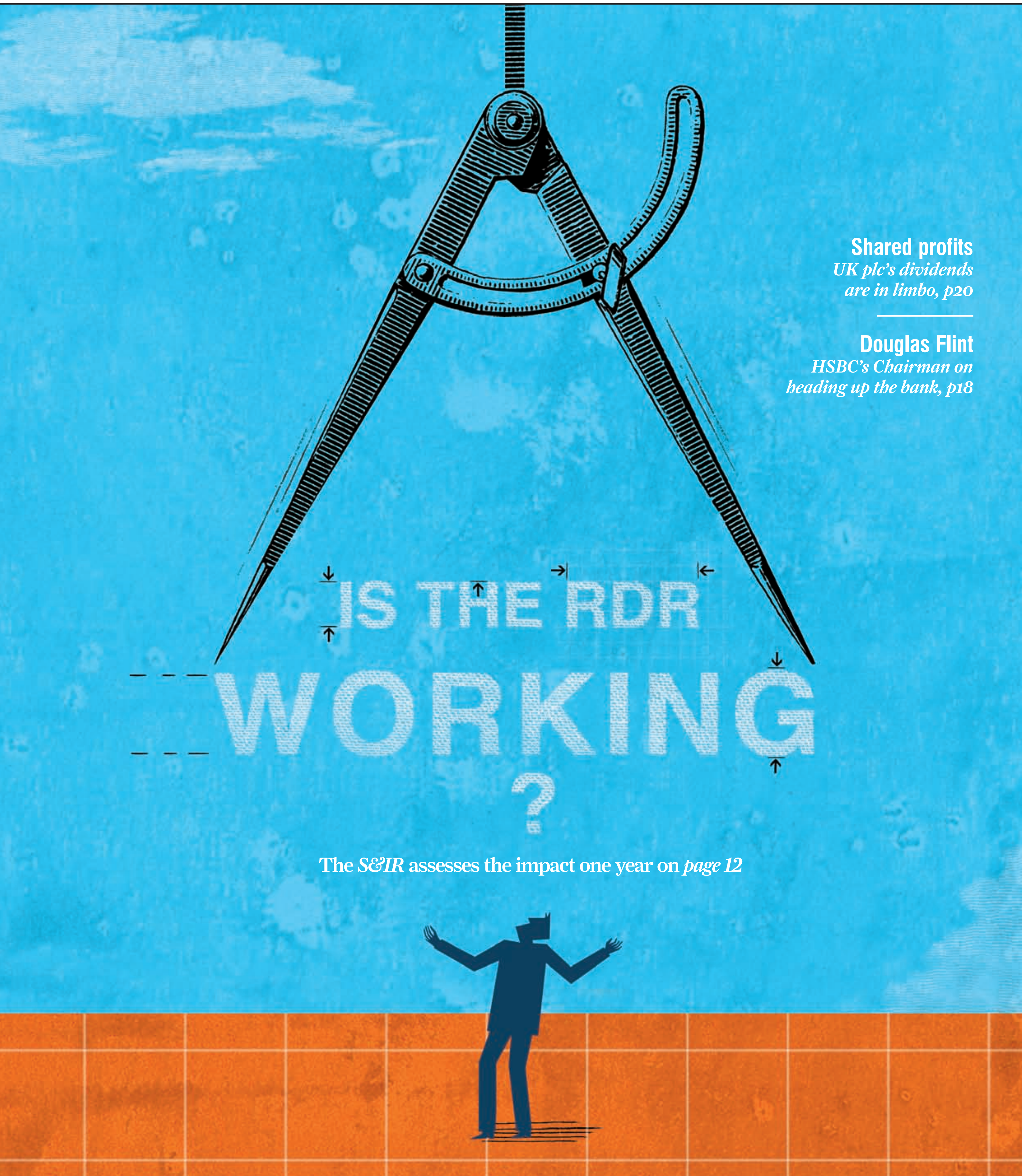

Shared profits
UK plc's dividends are in limbo, p20

Douglas Flint
HSBC's Chairman on heading up the bank, p18

The *S&IR* assesses the impact one year on *page 12*

Program "CCS – Certified Clearing Specialist"

Back office staff operates in a continually changing environment. Interoperability and over-the-counter derivatives clearing are only two of many key concepts that will define the European clearing marketplace of the future.

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Editor
Rob Haynes

Consultant Editor
Andrew Davis

Art Director
Steven Gibbon

Publisher
David Poulton

Production Director
John Faulkner

Managing Director
Claire Oldfield

Chief Executive
Martin MacConnol

Advertising Sales
Yanina Stachura
+44 20 7010 0945
yanina.stachura@wardour.co.uk

Cover illustration
Frazer Hudson for Début Art

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34–43 Russell Street
London WC2B 5HA
Telephone: +44 20 7010 0999
Fax: +44 20 7010 0900
www.wardour.co.uk
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Communications Editor, Chartered Institute for Securities & Investment
Richard Mitchell
8 Eastcheap, London EC3M 1AE
Telephone: +44 20 7645 0749
Email: richard.mitchell@cisi.org

Editorial panel

Peter Land, Chartered FCSI, *Chairman*	Brewin Dolphin
Suren Chellappah FCSI	Sanford C Bernstein
Moorad Choudhry FCSI	Royal Bank of Scotland
Simon Culhane, Chartered FCSI	Chartered Institute for Securities & Investment
Scott Dobbie FCSI(Hon)	Deutsche Bank
Mike Gould FCSI	Investment Management Association
Amy Lazenby, Chartered FCSI	
Jeannette Lichner MCSI	FTI Consulting
Gregor Logan MCSI	
Paul Loughlin, Chartered MCSI	Rathbone Investment Management
Robert Merrifield, Chartered FCSI	
Richard Mitchell	Chartered Institute for Securities & Investment
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Jeremy Robinson, Chartered FCSI	Charles Stanley
Hamish Rowan-Hamilton	Veridicus
Markus Ruetimann FCSI	Schroder Investment Management
Nimrod Schwarzmann	
Arjuna Sittampalam, Chartered MCSI	Sage & Hermes
Nigel Sydenham, Chartered FCSI	BPP Professional Education
Alan Yarrow, Chartered FCSI(Hon)	Chartered Institute for Securities & Investment

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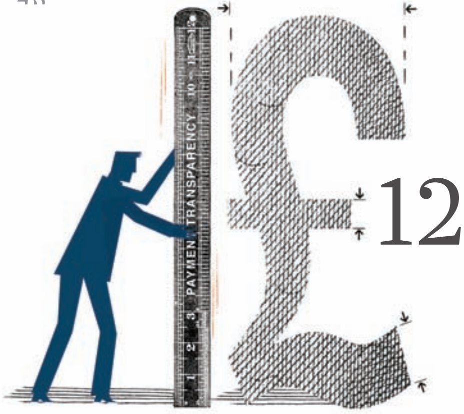

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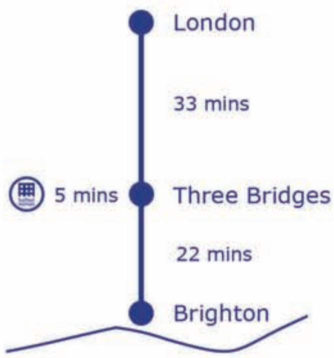
Time for Change?

Are you a qualified retail investment adviser with a transferable client base?
Would you like to work for a small independent stockbroking firm?
If your answers are yes, please write to or call:

Neil Badger
Dowgate Capital Stockbrokers Limited
Talisman House
Jubilee Walk
Three Bridges
Crawley, West Sussex
RH10 1LQ

Tel: 01293 517744
Email: neil.badger@dowgate.co.uk



Dowgate has been in business for over 22 years. We completed a management buy out in 2011 and are looking for new investment advisers to join us. We offer a traditional stockbroking service mainly to private clients. In addition, we provide corporate broking services to smaller companies on the AiM market and can provide private client access to new issues led by us or other brokers.

Dowgate Capital Stockbrokers Limited is authorised and regulated by the Financial Conduct Authority and is a member of the London Stock Exchange and ISDX.

CISI OPINION

Use of public money to help entrepreneurs may sound like a good idea, but the Start-Up Loans scheme needs a re-think

Banks are not dragons and taxpayers are not mugs

SMALL AND MEDIUM-SIZED businesses (those employing up to 250 staff) are the lifeblood of the UK economy, contributing to about half of the workforce (14.4 million people) and £1.6tn of GDP. It is therefore sensible to ensure that there is a regular pipeline of new start-ups today, which will evolve to be the large corporations of tomorrow.

However, starting a business is challenging, which is why more than one third of new firms fail within a year. One reason is the difficulty that budding entrepreneurs have in attracting finance. They need finance to turn their ideas into reality, but bankers want to see a proven track record first. The entrepreneurs' frustration has been heard by ministers who are publicly berating the banks to lend more to this group.

Bankers, though, are understandably cautious. They are acutely aware that one of the conclusions of the banking crisis is that bankers lent 'recklessly', which means they lent too much, often unsecured or under secured, to organisations and people whose business assumptions were invariably over-optimistic.

Older bankers might recognise entrepreneurs as falling into that category; people with a seemingly bright idea but unrealistic growth projections and no security.

But banks are not in the business of providing soft or equity finance for any business, let alone start-ups.

Banks exist to help expand and grow business. They make a judgment based on what they perceive to be the net risk from which they price their reward – a fee plus an interest rate. As banks do not take equity positions and, therefore, by definition, limit their reward, they are not at the risky end of the market.

The Government has recognised the entrepreneurs' dilemma – no track record, so no traditional source of finance – by creating a special source of finance initially for entrepreneurs aged 18–30. Now open to all ages, it is called the Start-Up Loans scheme and is fronted by former *Dragons' Den* judge, James Caan. It supports entrepreneurs by providing mentoring and unsecured soft loans from £2,500 to £20,000 to controlling principals or shareholders in the business, typically one to three individuals. Since May 2013 it has lent more than £46m in unsecured funds to more than 9,000 individuals' organisations.

However, taxpayers may raise an eyebrow at the risk-reward ratio, which appears heavily skewed towards the borrower. Although the financier is providing risky soft-loan capital, its return is priced at only 3% over base rate and there is a capital repayment holiday for 12 months. This isn't the sort of deal that James Caan or his fellow dragons would contemplate, yet it's in exactly the same high-risk category for which they would expect a potential high-reward return.

This isn't a deal that James Caan or his fellow dragons would accept

Furthermore, there are questions about who are actually making the lending decisions. It is understood from various sources that the typically three to four panel interviewers chosen at random from their register may not be as financially savvy as one would expect. Borrowers have found that they tend not to ask questions about the viability of the very basic business plans or the 'what-if' questions about what happens when they run out of this relatively limited funding provided. Instead, there is a tendency to want to motivate the applicant to do well and say 'yes' if the plan looks 'ok', which delights the borrowers.

Of those who appear in front of real dragons, less than 10% receive an offer. The 'success' rate of Start-Up loans applicants, who appear in front of their financiers, appears much closer to 50%.

However, unlike the dragons or a bank-lending proposition, there is no requirement for the appointed mentors to track how the business is progressing or how the funds are actually being spent; although there is some move to now requesting quarterly reports. But commonsense start-up lending says that these untried start-ups need monthly financial cash flow and forecast monitoring, from suitably experienced mentors, for the first six months, then quarterly thereafter. This is to spot the early warning signs to guide these inexperienced borrowers from failing either to repay taxpayers' money or to prove they are ready for second-round funding.

Given that there is no upside for the Start-Up Loans initiative if a business is successful, and with a margin of only 3%, then it can afford only for the odd failure. But is this realistic? Even if we assume that the mentoring scheme is so successful that it halves the normal failure rate, the level of bad debts will be 16% of its loan book – £8m so far – which would be over twice as bad as the Lloyds Banking Group.

We do need to support start-ups. The idea of helping them is an excellent one – but it's questionable whether rushing into it without the proper risk-management process is acceptable, thereby risking taxpayers' money for unsecured borrowers who cannot get funding from anywhere else. ■

PARTNERSHIP

CISI signs MoU with the Financial University of Russia

Back row, from left: Simon Moore of the CBI; Secretary of State for Business, Innovation and Skills Vince Cable; Russian First Deputy Prime Minister Igor Shuvalov; and Aleksandr Shokhin of the Russian Union of Industrialists and Entrepreneurs (Russia's equivalent of the CBI). Front row, from left: George Littlejohn MCSI and Professor Mikhail Eskindarov

The CISI and the Financial University of Russia have signed an agreement to increase opportunities in professional development, qualifications recognition and industry standards between the two bodies.

The memorandum of understanding (MoU) was signed in Moscow by Professor Mikhail Eskindarov, Rector of the Financial University under the Government of the Russian Federation, and George Littlejohn MCSI, Senior Adviser to the CISI. The signing took place in the presence of Vince Cable, Secretary of State for Business, Innovation and Skills, and Igor Shuvalov, First Deputy Prime Minister of Russia.

The agreement aims to maintain and enhance professionalism across the University in respect of knowledge, skills and integrity. The Financial University is one of Russia's leading universities with branches all over the country.

In a rare tribute, the ministers welcomed the agreement in a joint communiqué issued at the end of their intergovernmental talks – a first for the Institute.

Vince Cable said that the Memorandum was "a significant step forward for UK-Russian trading relations and for the financial services industry in particular".

The MoU was created as part of the Joint Liaison Group between the City and the Moscow International Financial Centre (MIFC) to help with the building of the latter group, co-chaired by City of London Lord Mayor Roger Gifford and Alexander Voloshin, Head of the Working Group for the creation of the MIFC.

CISI Chief Executive Simon Culhane, Chartered FCSI said: "We aim to take this agreement forward rapidly not just to help young Russians develop the skills needed for the development of the MIFC but also to work in a spirit of genuine partnership so that our members around the world and those of the other bodies involved can engage directly with their professional counterparts in Moscow for their mutual benefit."

INTEGRITY

Wealth management debate

From left: panel members Gina Miller, CEO, SCM Private; John Authers, Financial Times; CISI Chief Executive Simon Culhane, Chartered FCSI; Richard Charnock, Chartered FCSI, Chairman, CISI Integrity Committee; Jeremy Marshall, CEO, Hoare & Co; and, Andrew Fisher, CEO, Towry

One might assume that a debate with a title 'UK Wealth Management – open, honest, transparent and fair?', and an audience largely comprising members of the CISI, would have only one outcome. But the wonderful world of statistics reflects otherwise.

A packed Plaisterers' Hall in the City of London listened to Andrew Fisher, CEO of Towry and Jeremy Marshall, CEO of Hoare & Co, vigorously support the motion at the CISI annual Integrity Debate. John Authers, senior investment columnist at the *Financial Times*, and Gina Miller, CEO of SCM Private, robustly opposed it.

The audience, of more than 300 CISI members and guests, was asked to vote before and after the debate on a five-point scale.

The 'before' vote saw a sizeable majority – 61% 'For' versus 28% 'Against', with 11% undecided. Following the discussion, this swung to 48% 'For' versus 39% 'Against' with 13% undecided. Although the 'Fors' remained the largest constituent, the gap of 39% had shrunk to only 9%.

Translating these figures into a statistical factor saw a pre-debate positive figure of 0.49 in favour of the 'For' camp, overturned into a negative figure of 0.11 in favour of the 'Againsts', who were thus declared the winners.

Footage from the Integrity Debate can be viewed on CISI TV at *cisi.org/tv*

CITY DEBATE

Up for discussion: interest rates effect

Will 'normalisation' of interest rates cause another financial crisis?

Join the next CISI/CSFI Mansion House City Debate on 17 February 2014 to debate this key issue.

The ever-vibrant Angela Knight FCSI(Hon) will return to her role as moderator. Nouriel Roubini, the star economist who anticipated the collapse of the US housing market and the worldwide recession which started in 2008, will lead the action.

For booking details, see *cisi.org/citydebate*

61

The percentage of 680 respondents to a CISI survey who feel more optimistic about the UK economy than three months ago. The confidence level is double that recorded when the Institute last ran the poll in spring 2013

DEVELOPMENT

Mentoring in the City

Young people attend a session led by CISI employees

CISI staff have won praise for helping a group of disadvantaged young people to sharpen their job-hunting skills. The Salmon Youth Centre, based in Bermondsey, London, was supported by the Institute in piloting a new scheme, the Future & Hope Employment Project. It aims to help young people not in employment, education or training, specifically by improving their communication skills and by instilling confidence.

At the end of a five-week programme, students put their course into practice for the afternoon with CISI staff at the Institute's London office. Activities included CV writing and mock interviews. There were also several presentations by staff members explaining how they got where they are today, including administrator Rudy Rodrigues De Sousa.

Rudy said: "It was great to share my experiences of when I joined the CISI as an apprentice and I hope it inspires the group members to fulfil their own goals."

Mildred Talabi, Youth Worker for Communications and Enterprise at the Salmon Youth Centre said: "It was a fantastic day and all the young people told me afterwards how much they benefited from it. The insights from staff – particularly the young apprentices – were inspirational, and the CV and interview sessions were a real eye-opener for the young people in understanding exactly what it is employers look for when recruiting."

To find out more about Salmon Youth Centre and its work with young people, please visit *salmonyouthcentre.org*

EVENTS

CPD highlights

Lizzie Haynes

A new London CPD series, 'Turning points', launches in the New Year, covering important changes facing clients – and members – at key moments in their lives.

The first event, on 5 February, sails into the stormy waters of divorce, with mediation expert Lizzie Haynes' safe hands on the tiller and a crew of divorce and separation gurus. Forthcoming events will cover, for instance, what and how to advise when a client sells a business, and the best ways to help children in Generation A (for austerity) get a property foothold.

Meanwhile, a recent CPD event, held at Watermen's Hall in the City of London and featuring Rear Admiral Chris Parry CBE, was the first ever to score 100% in delegate ratings. The Rear Admiral spoke about risk horizons at Watermen's Hall in the City of London.

One attendee commented that the event was "the best presentation I've seen for decades".

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

Calling all trainees

The CISI is looking for an enthusiastic and pro-active individual to join us as a **Trainee Administrator**, in January 2014.

...do you know someone suitable?

Based in the City of London
Starting salary £10k per annum plus a range of benefits increasing to £17k per annum after one year

The successful candidate will gain experience from undertaking a range of administration tasks in our departments, where they could be answering customer queries, processing membership application forms, and using IT systems to produce reports. In addition, as part of the progamme they will be required to take some of the CISI's qualifications.

They must have:

1. A minimum of five GCSE, grades A-C including English and Maths and two A levels, one of which must be either a grade A or B
2. Excellent communication skills both written and verbal
3. Good IT skills, excel and word
4. Good attention to detail and accuracy in their work
5. An excellent attitude to work and a willingness to learn

There is a competitive remuneration package which includes £100 a month towards travel and 7½% non-contributory pension into a personal pension after the probationary period, a sports club/gym subsidy, and 26 days annual leave (includes three days at Christmas).

Applications should be sent to:
Karen Dalton,
Head of HR, at **recruitment@cisi.org**

CISI
CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

The deadline for applications is 9am, 16 December 2013

cisi.org

FURTHER EDUCATION

Institute teams up with London's Newham College

Gulshen Raif

A course to kick-start finance careers in the City has begun at east London's largest further education college.

Newham College students can take the CISI's new Fundamentals of Financial Services course. The CISI designed the level-2 qualification as a first step in developing the basic knowledge needed to work in the financial markets industry. It covers issues such as calculating interest rates, advantages and disadvantages in bond investments and the links between savers and borrowers.

CISI Managing Director Ruth Martin said: "The CISI is committed to equipping talented people to enter the financial services industry. The Fundamentals course can be the starting point. We are particularly excited that Newham College, so close to the City and Canary Wharf, is offering this programme."

Other reasons the CISI chose the college include its 20,000 full- and part-time students, who represent diversity and a rich cultural mix. It also welcomes its partnership across London that includes links with Queen Mary University, London Metropolitan University, University College London and the University of East London.

Gulshen Raif, who leads Newham College's business curriculum, said: "The partnership provides an exciting new opportunity for participants to gain professional skills and knowledge, recognised by the financial services industry."

The 12-week evening course will be open to existing Newham College students and the general public.

The college is offering the course as a standalone qualification and as part of a set of other commercial programmes. It carries eight credits on the Qualifications & Credit Framework (QCF).

UK NETWORK

South Wales branch launched

Welsh Business Minister Edwina Hart addresses the launch event of the CISI South Wales branch

The CISI launched a South Wales branch with an inaugural event at Brewin Dolphin in Cardiff, attended by Welsh Business Minister Edwina Hart.

The branch President is Sandie Dunn ACSI, People Development Manager at Legal & General Investments in Cardiff (see 60-second interview, right).

The CISI is supporting the Welsh Government's initiative to promote Wales to London's financial institutions with a view to attracting inward investment and job creation, particularly within the Central Cardiff Enterprise Zone.

Edwina Hart said: "I wish the CISI branch in South Wales every success and welcome the support of this prestigious organisation in our drive to promote Wales as an extremely successful, cost-effective centre for professional and financial services, which is one of the fastest growing sectors in the Welsh economy."

The launch of the South Wales region brings to 19 the number of CISI UK branches.

For further information about the branch, email crm@cisi.org

60-second interview

Sandie Dunn, President of the CISI's South Wales branch

Q *Why has the South Wales branch been set up?*
Aside from proving their commitment to excellence by passing the CISI's stringent industry qualifications, members are keen to develop existing skills and keep abreast of current issues. However, travelling outside of the region to CPD events is not time or resource efficient. The new branch will provide CPD opportunities locally and promote the message that professional financial services can be found outside of the City of London, all endorsed by the CISI as a mark of quality.

Q *What does the region have to offer to the financial services industry?*
We have a great pool of talent in South Wales, highly skilled and keen to maintain and develop competence. Wales also has 25,000 students of financial and professional services, which is more than any major city in the UK outside of London. As Cardiff is a university town, many of these have foreign language skills that are in high demand from international businesses.

Q *What do you hope to achieve in the next 12 months?*
To provide a programme of CPD events that is topical, relevant and stimulating, giving practitioners the opportunity to network with other professionals and share best practice. We'll also be working with academia and Welsh Government representatives to help develop focused degree modules that will meet the needs of a growing financial sector, some perhaps incorporating CISI qualifications.

Q *What impact is the Welsh Government's drive to promote Wales as a financial services centre likely to have on the region in the next five years?*
Attracting more firms to the area will open up career opportunities in the region that may have previously required a change of location and help to establish Wales as a hub for financial services.

ONLINE

BEST OF THE BLOGS

1 tinyurl.com/focus-rdr
In a logical, frank assessment of the impact of the Retail Distribution Review (RDR), Martin McKenna from Focus Solutions writes: "The early feedback is that the majority of investment business (approaching 90%) is being placed with an agreed fee deducted from the product itself." Consumers, he continues, are still not writing a cheque for the services they are receiving. The overall effect is one where the cost of obtaining products has become substantially cheaper, but only for wealthier investors.

2 tinyurl.com/sense-rdr
In a post that pulls no punches, Steve Young writes on the Sense Blog that the RDR is but the latest attempt by financial regulators to address the "information asymmetry which lies at the heart of the financial markets". Consumers, he laments, often do not understand the products they buy and unscrupulous sellers may exploit this to their detriment. Even post RDR, Young sees exploitation in the marketplace, most notably in the market for distributor-owned wraps and centralised investment solutions. Roll on, more regulation.

3 tinyurl.com/dthomes-rdr
The RDR has prompted financial services consultancy Dunstan Thomas to conduct its own research into the new landscape. It finds that the industry faces a much tougher disclosure regime, and that adviser charging, together with competency training, have forced more than 20% of independent financial advisers out of the market.

See page 12 for more on the impact of the RDR.

Do you have a blog recommendation?
Send it to the Editor:
rob.haynes@wardour.co.uk

WORK EXPERIENCE

Placements needed

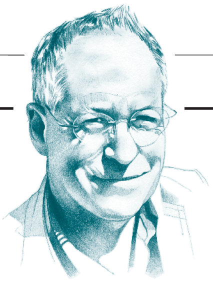
Could your company offer work experience to local students? The CISI is looking for financial services firms to provide support for 16-19 year olds studying CISI qualifications at schools and colleges, as part of its Investing in Futures initiative. The Institute aims to connect motivated students with firms in their local area to help their learning experience.

CISI Managing Director Ruth Martin said: "All of us know that the opportunity to gain work experience is vital for young people, both to nurture talent and to provide insights into industry. Many firms already offer initiatives – please help if you can."

Work experience can vary from a few days to several weeks, and the CISI will help firms to develop a bespoke programme and provide as many students as firms are able to support. The initiative is supported by the CISI Educational Trust, which is able to help fund students' expenses, such as travel.

The CISI is also encouraging firms to get involved with local schools by giving careers talks or sponsoring the delivery of CISI qualifications.

For more information, please contact Helen Stocks, CISI Educational Development Executive, at *Helen.Stocks@cisi.org*



CLAY *'MUDLARK'* HARRIS

Andrew Grimes, Chartered FCSI, Compliance Assistant, Investec Wealth & Management

Andrew Grimes Chartered FCSI has found that for careers, just as on the road, there's no such thing as an infallible satnav.

Sometimes one is not certain of the destination; once it's known, moreover, the route that works best may not be the most direct.

Andrew, a Compliance Assistant with Investec Wealth & Investment in Liverpool, now has a good idea of where he wants to go, but that has taken time, and there have been a few diversions along the way.

Andrew achieved good marks in school, passed his A Levels and briefly attended Edge Hill University in Ormskirk. He quickly discovered, however, that he had chosen the wrong course, Sports Science, and left before his second term ended.

Needing money, he worked as a data verifier for the local newspaper, the *Liverpool Echo*, proofreading classified ads. It was the first of several contract jobs, including 12 months as a postman, the career of two older brothers.

He enjoyed many aspects of the job – being outdoors, staying fit, finishing early – but his supervisor, learning of his academic background, suggested that he should set his sights higher.

Andrew then worked for NatWest, processing outward payments. He started in data entry, but his error rate was so low that he was given more responsibility. Nevertheless, the job was only a 12-month contract, and Andrew went to work proofreading ads for a small local publisher.

"I suspected something was amiss, with the bosses always in meetings, so I went to a recruitment agency. I had an interview with what was then called Rensburg and found out I had been successful on the same day I was told the publisher was in liquidation."

Andrew started in 2005 in valuations, but after 12 months – when Rensburg merged with Carr Sheppards – that function was moved to London. A move to London might have been possible, but "I just wanted to establish myself in the office where I was working."

> Andrew is one of the youngest people to become a Chartered FCSI

Sensing that he had the potential for a good career at Investec Wealth & Investment, as the firm has become, Andrew took the initiative on two fronts. He tried to get experience in as many functions as possible in departments including client accounts, options middle office and operational risk and control.

Andrew also pursued CISI qualifications, gaining diplomas in Investment Operations and Investment Compliance. He is one of the youngest people to become a Chartered FCSI. Andrew has also recently acquired the Advanced Certificate in Operational Risk.

In spite of his preparations, several applications for team leadership roles weren't successful. Although disappointed at these setbacks, preparations weren't in vain and Andrew was undeterred in attempting to advance his career and put into use the experience gained from working life and knowledge from high-level CISI Diplomas.

Another opportunity did come up. Since January, he has worked as a Compliance Assistant reviewing investment managers within Investec Wealth & Investment's northern offices, including Scotland and Belfast, to ensure their compliance with the Financial Conduct Authority's rules and internal procedures.

This means that he's on the road for about half the time. "At the moment, that's not bothering me at all. Once you get to the office, it makes it all worthwhile."

The same applies in career terms: "Getting to Compliance has been a long journey, I would have liked it to happen sooner but I'm here now."

Andrew Grimes, Chartered FCSI

Compliance Assistant, Investec Wealth & Management

Do you have a back-office story?

mudlarklives@hotmail.co.uk

Illustration: Luke Wilson

CALL FOR PAPERS

Academic journal

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

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

Members can submit to the CISI for consideration original papers of between 1,500 and 3,000 words in length, accompanied by an abstract of 80 to 150 words.

All papers put forward will be refereed by the journal editorial panel, comprising practitioners and academics, or its recommended reviewers.

Professor Moorad Choudhry FCSI has been appointed by the CISI as Editor of the journal. He will chair a panel of practitioners and academics who will choose and commission content. He is Managing Editor of the *International Journal of Monetary Economics and Finance*, author of *The Principles of Banking* and a member of the CISI Editorial Panel, which chooses content for the *S&IR*.

For further information about the academic journal, including submission guidelines, see *cisi.org/academic*

REGULATION

Ireland joins legal entity identifier system

Gareth O'Neill

The Irish Stock Exchange (ISE) is helping financial services firms in Ireland to comply with new regulatory requirements to manage counterparty risk.

The ISE has been named by the Central Bank of Ireland as the country's sponsored provider of a service to implement the global legal entity identifier (LEI) system.

The system will require all organisations involved in financial transactions to obtain a unique 20-digit LEI code to enable the identification and linking of parties to contracts. It is being introduced as part of the international response by regulatory authorities, including the G20 and the Financial Stability Board, to the global financial crisis.

Prior to the global quality setter, the Central Operating Unit, becoming fully operational, the ISE will issue a pre-LEI code.

Gareth O'Neill, Market and LEI Services Manager at the ISE, said: "A pre-LEI code is already required by entities in some cases, for example for over-the-counter derivative transaction reporting under the European Market Infrastructure Regulation. The pre-LEI code process will also assist any entity that wishes to prepare for full LEI implementation."

For further information, see *isedirect.ie*

Ask the experts...

Mike Gould FCSI
Adviser, Retail Distribution, Investment Management Association

WHAT ARE PLATFORMS?

Platforms are online services used by intermediaries (and sometimes consumers directly) to view and manage their investment portfolios. In fact, 'platform' is a generic term that describes two different services – fund supermarkets and wraps – although the distinction is now a fine one.

The first fund supermarkets in the UK, launched at the beginning of the century, were trading platforms, providing investors with access to a range of retail funds, usually at a price lower than that available from dealing direct with the fund manager. This price reduction was achieved by the supermarket negotiating a discount on the fund's initial charge and, often, on the annual management charge as well. Additional benefits to the investor came in the form of the ability to view his whole fund portfolio in one place and deal with just one investment administrator. The range of funds available on any supermarket platform varied depending on the willingness of fund managers to agree terms with the platform provider and, because of this charge for 'shelf space', some cheaper fund products, such as exchange-traded funds, tended not to be available.

Wraps were designed to accommodate all an investor's holdings (not just funds) and were aimed primarily at financial advisers. Using these, an adviser could collate all his clients' investments, including shares and bonds, and protect all or some of them in tax-efficient structures, such as individual savings accounts. Advisers used wraps to adjust portfolios and make bulk switches of investments on behalf of multiple clients. The wrap provider's charging model involved the client (or his adviser) paying them direct, so there was no reason to limit the investments included.

Nowadays, platforms include a range of different investments, plus additional services such as research and enhanced reporting options. Wrap platforms offer portfolio analysis, tax-planning strategies and other services an adviser might need.

Because of the different services available on different platforms, costs vary, but a fee of 25–40 basis points is a widely used range among the UK's two dozen major platforms.

Over time, with the addition of new features, supermarkets and wraps have come to look more and more alike. New Financial Conduct Authority rules, affecting how all platform providers are remunerated, are likely to accelerate this process. From April 2014, all platform providers will be banned from accepting payment for new business from product providers and will have to switch to charging their users instead, removing one of the main differences between the two.

This regulatory change is affecting the market already, with some platform providers moving to early adoption of the new charging structure. In order to maintain the effect of the discount previously paid by fund managers, some of these early movers are requiring managers to establish separate unit classes with lower headline charges, reflecting the previous net position. As more platform providers enter negotiations with managers, more unit classes are being established.

When these new unit classes are listed on platforms, some platform providers are taking the view that all their clients should be invested in them and are therefore instructing managers to undertake bulk conversions from the old into the new class. This is leading to a rapidly changing environment in fund charges and, at least for the present, an increasingly wide mix of share classes with different charging structures.

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

INDUSTRY

New name for APCIMS

The Association of Private Client Investment Managers and Stockbrokers (APCIMS) has changed its name to the Wealth Management Association (WMA).

Members of the 23-year-old trade association overwhelmingly approved plans to adopt the new name to reflect better the work carried out by the organisation.

The move follows research among members and regular APCIMS contacts that showed a clear desire to change the way in which the organisation is presented and perceived.

WMA chief executive Dr Tim May MCSI said: "This is a big step forward for our Association. It means our name now encapsulates the key services our members provide for their customers and clients."

CISI Managing Director Ruth Martin said: "APCIMS has been, and continues to be, a very important partner for the CISI, particularly in developing and supporting our work in the Retail Distribution Review.

"We fully support the evolution of the APCIMS position and brand, and it aligns closely with the CISI's own work in the wealth management sector."

PUBLICATIONS

Update on *Change*

The next edition of the CISI's *Change – the regulatory update* will be delayed until January 2014.

Christopher Bond, Chartered MCSI, Editor of *Change*, said: "I apologise to readers for this. I am temporarily taking on another regulatory role within the CISI." In the meantime, readers can email Christopher with regulatory questions at *Christopher.bond@cisi.org*

QUICK QUIZ

Test your industry knowledge

Illustration: Cameron Law

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

☛ Answers are on page 29.

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

Q1. What is the term used for a rights issue where the only options for the investor are to either take up the rights or reject them?
A) An introduction B) A scrip issue C) A deferred share issue D) An open offer

Q2. Which ONE of the following forms part of the Listing Rules in relation to share dealing by directors and senior employees?
A) Conduct of Business rules B) Model Code for Directors Dealings
C) Sourcebook on Directors and Insider Dealing D) Code of Market Conduct

Q3. The CISI's published Principles state that members should attain and actively manage a level of professional competence appropriate to their responsibilities and to:
A) Seek advice from their internal audit department B) Promote the development of others C) Consult with the firm's non-executive directors D) Consult with the firm's non-executive directors

Q4. Which of the regulators' supervisory tools is designed to identify, assess and measure risk? A) Diagnostic B) Monitoring C) Preventative D) Remedial

Easy does it

The recent government shutdown in the US tested the nerves of investors and dampened optimism of a full recovery. With economic output in the balance, the Fed should continue quantitative easing

> “The Fed will probably respond in the best way it can, by doing nothing”

IN THE WORDS of veteran investor Warren Buffett, the threat of a US default, wielded in fraught talks over raising America’s debt ceiling, was tantamount to unleashing a “political weapon of mass destruction”.

Indeed, the gyrations in parts of the US bond market in the days leading up to October’s deal in Congress – merely a stop-gap agreement giving politicians until early 2014 to resolve their differences – showed how nervy investors briefly became.

Yields on sleepy one-month bills, which move inversely to prices, jumped sharply, evidence that bond traders were demanding bigger premiums to compensate for the increased risk of holding short-term US sovereign debt.

This was no Lehman moment. Important interbank lending markets remained unmoved, as did other asset classes. But the bond market matters. It is far, far bigger than the stock market and the US government bond market is the biggest and most liquid in the world.

Were yields on US bonds to rise sharply, pushing up the cost of borrowing for America, then the cost of issuing other kinds of debt – for example bonds issued by companies – would also rise. Debt is an essential source of financing. US Treasuries, moreover, keep the financial system running, since they are widely used as collateral in the overnight ‘repo’ markets tapped by banks. With the US recovery finely poised, a drastic sell-off in Treasuries would be unwelcome.

Already, the prospect of a gradual withdrawal of emergency Federal Reserve monetary easing has pushed up the cost of new mortgages for US borrowers, putting at risk a revival in America’s housing market. A parallel disagreement over the US budget, which led to a temporary government shutdown, has led to corporate profit warnings and economic uncertainty.

Economists have now begun quantifying the impact of the autumn’s political drama in Washington.

According to Stephen Lewis, Chief Economist at Monument Securities, the shutdown could cut 0.5% from fourth quarter US output growth, as well as making it difficult for the Fed to judge the underlying strength of the economy.

“This problem will be all the more serious if the congressional committee seeking to negotiate an agreed budget package fails to achieve its objective and there are renewed fears over federal financing,” he says.

On its own, this is unlikely to derail the US recovery. The problem, though, is that jobs growth has recently begun to flag. That, combined with concern over the housing market recovery, means that an entirely avoidable and politically-engineered hit to growth is the last thing America – and the rest of the world – needs.

The early part of next year, then, now looms large as a crunch point for the markets.

US politicians could keep rolling over the debt ceiling by a few months, allowing it to continue borrowing to finance spending. But the continued uncertainty in such a scenario will be corrosive. And, with US corporate earnings growth still to live up to the lofty expectations implied by stock valuations, the risk of a correction in equities has grown.

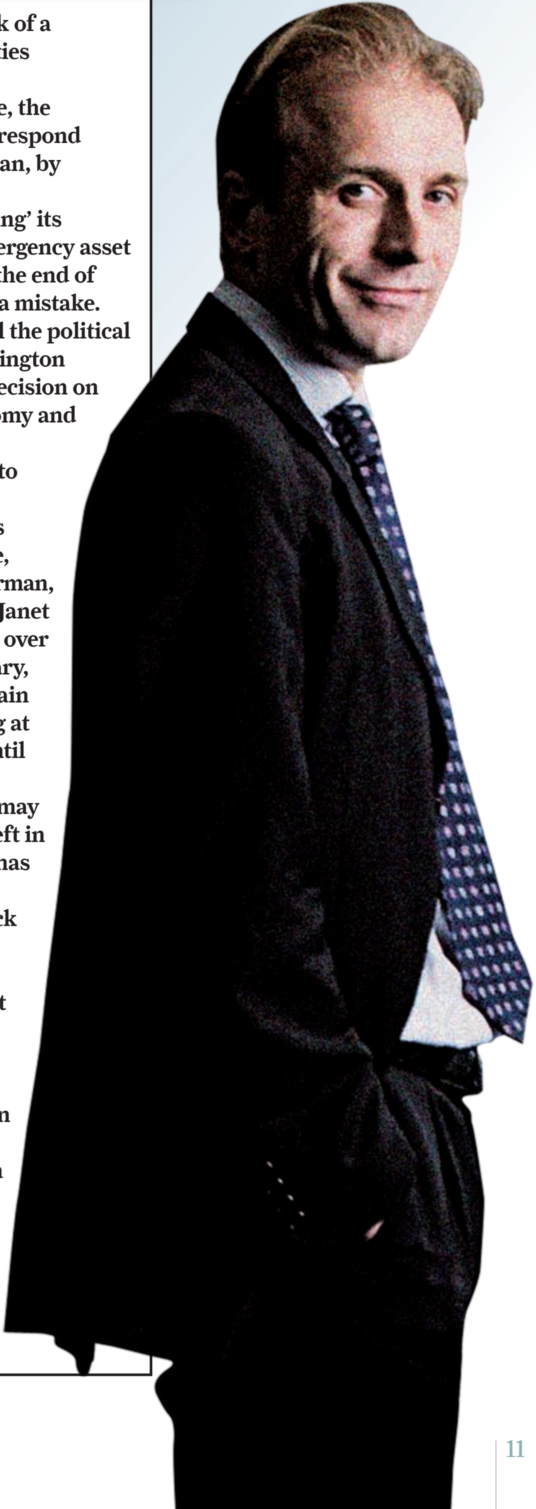
In the meantime, the Fed will probably respond in the best way it can, by doing nothing.

To begin ‘tapering’ its programme of emergency asset purchases before the end of the year would be a mistake. Better to wait until the political fog clears in Washington before making a decision on whether the economy and labour market has improved enough to justify that.

My best guess is that Ben Bernanke, outgoing Fed Chairman, and his successor Janet Yellen, due to take over at the end of January, are likely to maintain quantitative easing at its current pace until the spring.

As such, there may well be some life left in the risk rally that has sent Wall Street’s S&P 500 index back to record highs in recent weeks.

The main caveat to this is that this rally looks, rather worryingly, ever more dependent on the flow of ultra-cheap money from the Fed. ■



Christopher Adams is the Financial Times’ *markets editor*

The big REVIEW

A year on from the implementation of the Retail Distribution Review, **Andrew Davis** looks at the policy's effects on finance professionals and clients

ON 31 DECEMBER 2012, after more than six years of preparation, the Retail Distribution Review (RDR) finally came into force. It is a wide-ranging overhaul of the way consumers receive and pay for advice across the full spectrum of retail investment products and, according to the then regulator, the FSA, has three main goals:

- To ensure consumers understand what amount they are paying for the advice they receive. This meant replacing the old system under which providers paid commission to advisers on sales of their products – regulators worried that advice was biased towards high manager payers – with a direct charge by the adviser to the client.
- To ensure that clients are told whether their adviser is 'independent', and therefore able to advise on all products from all providers, or 'restricted' and so able to handle only certain categories of product and/or those from a limited range of providers.
- To improve the standards of advice on offer by requiring all advisers to achieve new professional qualifications, equivalent to the first year of a degree course.

These goals, now being monitored by the Financial Conduct Authority (FCA), are in many ways uncontroversial; it is hard to find people who argue that greater transparency and professionalism are unwelcome developments. So to assess the early phase of the RDR, the *S&IR* has looked at the three main groups affected by the reforms.

Fund providers

For the fund management industry, the most obvious impact of the RDR so far has been the progressive unbundling of the annual management charge (AMC) that funds levy on investors' portfolios. Before this year, funds typically imposed an AMC of 1.5%, out of which came a commission payment to the adviser of 0.5% a year, plus another 0.25% to the platform through which the investment was arranged (see page 10, Ask the Experts on the theme of platforms).

Under the first phase of the RDR, the payment to the adviser has been stripped out and must be made directly by the client to the adviser. From April 2014, the platform charge will also be unbundled, leaving a 'clean class' AMC for fund management alone at about 0.75%.

But it's here that the fun begins. The changes are already creating a complex and costly situation for funds' back offices because all new business must be conducted according to the new rules (which will change again in April 2014 owing to platform regulations) while all legacy business will continue on the basis as prior to the RDR.

"It will be a complex situation for at least two years as legacy business gradually reduces," says Mike Gould FCSI, Senior Adviser on Retail Distribution at the Investment Management Association. "Every time the adviser gives the client some new advice then the legacy charging structures are switched off when the client switches his investment."

But there is scope for things to get more complex still. "All the big platforms are negotiating with the fund managers and saying 'when these new rules come in next April you won't be able to discount your annual management charge and we want to replicate the volume discount that we've always had'," says Gould. As a result, each of the major platforms is seeking to negotiate its own, lower AMCs for different funds with different managers.

This creates two issues for fund managers. First, they may see a proliferation of share classes in their funds as different platforms agree their own bespoke deals – hence the widespread talk of so-called 'super-clean' unit classes or what Robin Keyte, an independent financial adviser based in the West Country, calls 'fund soup'. This process naturally creates operational risk for the funds by making their back offices more complex to run, which increases the opportunity for errors to occur. However, it also makes life a lot harder for consumers, says Keyte. "They might want to invest in a fund and there might be six different share classes, or eight. How on earth do they work out what's what?"

> *"It seems likely that customers will now be better advised and products more robust. The alternative to these higher costs has been high costs to compensate 'victims' and 'fines' via the Financial Services Compensation Scheme"*
>
> ***CISI survey respondent (see box, right)***

Second, because in future all platform charges and fund AMCs will have to be separately disclosed, the volume discounts that platforms currently negotiate with fund managers in private discussions will become public knowledge – everyone will be able to see the deal that everyone else is getting. The belief among fund managers, says Gould, is that once these numbers are public, fund AMCs across the board will tend to level down to the prices negotiated by the biggest firms in the industry –reports suggest 0.6%. (Funds can still pay platforms for advertising under the new rules but these payments can't represent the cost of entry to a 'top funds' list, such as the Hargreaves Lansdown Wealth 150 list of funds.)

That may ultimately lead to a smaller number of more standardised share classes in the funds, but it is unlikely to be a comfortable process for managers. "There will certainly be a lot of commercial pressure on managers over their pricing and the expectation is that will put downward pressure on AMCs," he says.

If AMCs on actively managed funds do fall as a result of pressure from the big fund platforms, where might this process ultimately lead?

First, it is likely to narrow the cost gap between active and passive funds; at present, the latter tend to have lower annual charges. This could in turn help to push down charges on passive funds too.

Second, Gould suggests pressure on charges for active funds will probably lead to a wave of consolidation across the industry in the coming years. "The perception is that there will be a move towards what people are already calling mega-funds so there will be some funds that are widely available and they will get bigger and bigger." This is likely to lead to smaller and poorer performing funds closing or merging and more consolidation among management companies and platforms, he says.

If that view is correct, however, it may lead to a further blurring of the line between active and passive funds, because when active funds become very large, their holdings often start to look more like the index against which they are benchmarked.

"I think it's harder for very large funds not to look like trackers," says Gould, "because the bigger you get and the more holdings you have to hold, the more difficult it gets to hold something

Online poll

In an online survey placed on its website, the CISI asked visitors whether the benefits to customers brought about by the RDR outweigh the implementation costs to the financial services sector.

The results:

Yes: 22%
No: 36%
Too early to tell: 42%

Notable views from the 453 respondents:

"The RDR and removal of commission has been to the detriment of many as advice is now unaffordable to those who, arguably, need it most. All the FSA had to do was enforce equal commission rates for products across the industry so that it could no longer cause any bias. In my view, this part of the RDR has been extremely detrimental."

"A good idea in principle but it's a sledgehammer to crack a nut."

"Although I agree with the higher academic threshold requirements for advisers, I believe that many small investors have been left uncovered and disadvantaged."

"The very people who need help in choosing will not pay for advice. If people do not read the APR rate of the store card they sign, what chance for longer-term products?"

Illustrations: Frazer Hudson for Debut Art that's very different to the index."

The risk from a more highly concentrated supply chain of fund managers, funds and platforms is that most of the money flows to a smaller number of very large funds and brands, which could make it harder for new ideas and new types of fund to emerge and gain distribution.

By unbundling the way that investment services are charged for, one unintended consequence of the RDR has been to pit the major players in the chain – providers and distributors – against each other while a new charging structure is worked out. Some might argue that if that leads to bigger companies that are more efficient and therefore cheaper, that would count as a victory for retail investors. But, as ever, not all of the side effects of this change are likely to be predictable or welcome.

Advisers and intermediaries

It should come as no surprise that the biggest direct impact of the RDR has fallen on advisers and intermediaries – they were, after all, the key focus of regulators from the outset. However, even here there have been unintended consequences of changing the way that advisers charge for their services and insisting that they achieve higher professional standards.

The most obvious of these has been the near-universal withdrawal from the mass advisory market of the major banks. Barclays, HSBC, Lloyds and Santander have all quit the market (although Santander continues to service existing clients), while RBS has laid off more than 600 in-branch advisers. Yorkshire, Clydesdale and Co-op have also called it a day.

There are thought to have been several factors behind the banks' withdrawal. Partly this was due to the cost of retraining their large teams of advisers to the new standards; partly it reflects the difficulty of delivering a service to clients with relatively small amounts to invest that both meets the new regulatory standards and makes a profit; and, partly it is thought to reflect the banks' concern at the risk of further potential penalties for misselling in future.

Therefore, the first big effect on intermediaries is that there are fewer of them. According to trade publication *Money Marketing*, the number of financial advisers operating on the first day of the RDR was 31,132, down from the 40,566 estimated by the FSA a year earlier. Not surprisingly, the number of bank and building society advisers was down 44% over the same period, from 8,658 to 4,809. In August 2013, the FCA estimated there were 32,690 advisers, a 5% increase since the beginning of the year.

Chris Hannant, Director-General of the Association of Professional Financial Advisers, agrees with these numbers: "People are saying it is slightly more difficult to transact business or it's taking longer, but it's natural that if that number of advisers have left, there are fewer people chasing that business and so there are more fish in the sea. What we've also seen is a lot of consolidation and merger activity among advisers and that trend is continuing."

"Any client with less than a £100k liquid investment is on their own or paying a lot (relative) in fees as they are no longer economically viable. How is that benefiting normal people?"

CISI survey respondent

For those advisers that remain, they are now much better qualified than under the old regime. CISI Managing Director Ruth Martin points out that all advisers have either had to undertake gap-fill work to build on their existing qualifications or have had to take new exams. "That is pretty remarkable – everyone has had to brush up. There's been no grandfathering," she says.

One big change for many advisers has been the introduction of mandatory continuing professional development (CPD), although many in the wealth management sector were already doing this, she says.

Peter Moores, Chartered FCSI, CEO of wealth manager Raymond James picks up the point: "We see the RDR as a positive move. The issues around transparency, cost and professional standards have been really good for the industry and for our business."

Another major change has been the introduction of mandatory Statements of Professional Standing (SPS) for advisers, which must be renewed every year and which clients can ask to see. "The SPS requires people to declare if they've had a disciplinary issue so we are finding out much more about that," says Martin. This is putting much greater emphasis on integrity as a key issue for advisers, she believes.

However, it is too early to tell what effect the new focus on professionalism has had on the customer experience. "Key elements, such as the SPS and CPD, have only been mandatory since the RDR came in, so we haven't seen a full year of them in operation yet," says Martin. "In many ways, measuring the effectiveness of the professionalism stream on the end-user will really be a 2014–15 activity."

For firms, the effects of the RDR have been felt on costs – particularly the need to train to meet the new professional standards – and on revenues, where the RDR has required firms to set out clearly for clients, in pounds and pence, what it will cost them to use their adviser. In particular, the RDR has seen the abolition on all new investments of the yearly 0.5% trail commission that advisers used to receive from fund managers out of the AMC.

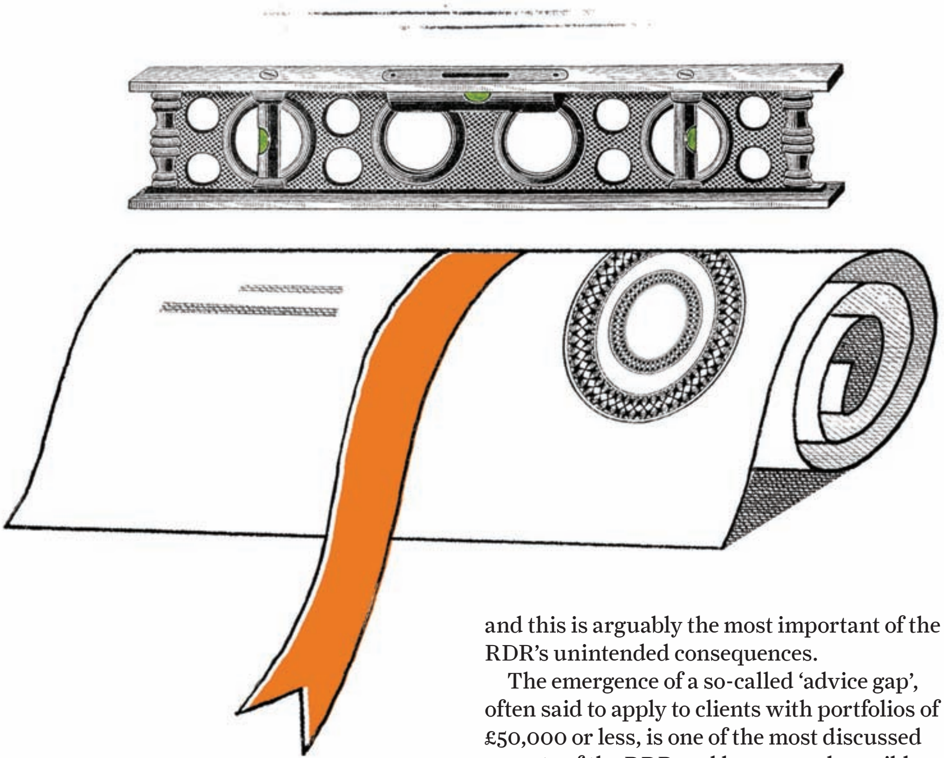
Advisers generally have sought to replace trail commission with an annual fee for providing ongoing service. However, if customers do not wish to pay for this, advisers now face a perverse incentive: if they advise these clients to switch their investments they will stop receiving trail commission and so be worse off. This undesirable situation is likely to persist at least until trail commission on all legacy business is finally abolished, possibly in 2016, says Christopher Bond, Chartered MCSI, Senior Adviser to the CISI. "In the meantime, you're going to find customers locked into investments that may no longer be suitable because the adviser will be strongly disincentivised from telling the customer they should be sold or switched."

In the first part of its own three-stage review of the RDR's implementation, the FCA has already highlighted the question of ongoing service as an area of concern, saying: "Some firms fell down by not being clear what ongoing services they would provide."

It also found that some advisers were failing to provide customers with a clear idea in cash terms of what they would pay for advice. Since most advice is still charged for as a percentage of the portfolio value, it may not always be possible to give customers a precise cash figure in advance. However, the FCA pointed to examples where firms provided illustrative tables of the fee that would be charged on different-sized portfolios as providing examples of good practice. As a response to the RDR, many firms, including wealth manager Brewin Dolphin, have published a rate card of client charges for the first time, ending what had been an array of historic charging structures agreed with different clients at different times.

"Even though the wealth management space as a whole is probably OK, there are a number of firms that we hear are having awkward conversations with clients," says Moores. If the client hasn't been aware that their wealth manager has been receiving trail commission and hanging on to it, this has caused some friction – causing some people to change firms or to go it alone entirely.

A further area where the RDR has had a major impact has been on forcing intermediaries to rethink how they describe themselves. Advisers now have to meet strict criteria in order to be able to describe themselves as 'independent', as opposed to 'restricted'. In order to call itself independent, a firm must show that it can advise clients on the full prescribed range of retail investment products and that it covers all the providers of those products in the market. If it falls short on either of those measures, it must tell clients it offers restricted advice and explain what those restrictions in practice are.



The FCA's first review highlighted this area as one where problems had arisen: "We were also concerned that some firms, while describing themselves as independent, were not offering a truly independent service. Some firms providing restricted advice were not adequately describing the nature of the firm's restriction," it reported.

Keyte says, however, that fewer independent financial adviser (IFA) firms than he had feared have in fact given up the independent banner and moved to offering restricted advice.

However, this leaves open the question of how broad a range of offerings now fall under the heading of 'restricted advice'. These can range from an adviser who covers only certain investment products but looks at the entire spectrum of providers in these markets, to one that offers a small range of products from a limited number of providers. In theory, both are offering the same type of advice but in practice the two services will be very different, as will the level of choice the customer enjoys.

"Instinctively, I think the RDR is worth the cost, speaking from the asset management side and based purely on common sense and anecdotal evidence. However, I do think it is far too early to have any meaningful data on which to reach any firm conclusions"

CISI survey respondent

The customers

For customers, the big question that comes out of the RDR is simple: is it any easier to get access to financial advice now than it was before? The answer would appear to be 'no', and this is arguably the most important of the RDR's unintended consequences.

The emergence of a so-called 'advice gap', often said to apply to clients with portfolios of £50,000 or less, is one of the most discussed aspects of the RDR and has several possible causes. The withdrawal of the banks from retail financial advice has left a lot of smaller clients without an obvious alternative. The latest annual results from fund managers Hargreaves Lansdown showed that 75,000 new customers had joined its Vantage execution-only platform in the year to 30 June 2013, an increase of nearly 18% in client numbers. Many are thought to be refugees from the banks.

However, advisers such as Amanda Davidson of Baigrie Davies point to other reasons for the emergence of an advice gap. Davidson argues that under the previous commission-based regime, a cross subsidy existed from the wealthier clients of IFAs to the less well-off because all were paying a percentage of their assets in annual commission. Once everyone has to pay their own fees, advisers have a natural incentive to concentrate on attracting and keeping wealthier clients – and indeed some firms have told investors with smaller portfolios that they are no longer welcome.

Advisers agree that wealthier clients now have a great deal of choice. But there are concerns for the rest. FCA Chief Executive Martin Wheatley told the Treasury Select Committee in September 2013: "People with portfolios below £50,000 or £100,000 are not getting the same sort of service that they were getting, so that is a concern."

However, although many less well-off people undoubtedly have less access to advice than they did – and a proportion of them are starting to fend for themselves via execution-only services – other alternatives are emerging that suggest the advice gap may not be as serious as some have suggested.

A major player at the lower end of the market is now Legal & General (L&G), which since November 2012 has had

140 advisers operating via building society and Virgin Money branches, and serving clients with less to invest than the sums Wheatley mentioned. "If you're lucky they've got £20,000," says Mike Connolly, L&G Spokesman for Wealth Management. "Most of them have got significantly below that."

L&G charges these clients an upfront fee of 3.5%, with the option of ongoing service for 0.65% a year. If they choose this, customers get telephone and face-to-face access to the adviser on request, and two personal statements per year. This level of costs is roughly in line with other advisory firms, which are now charging at least 3% as an initial fee coupled with an on-going charge ranging from 0.5–1% for customers with smaller portfolios. Connolly says that L&G is currently picking up about 1,000 clients a month, 96% of whom are opting for the ongoing service.

As well as serving the customers of many building societies, L&G also provides all mid- and back-office services to Nationwide's 600-strong team of advisers. In all cases, the service that customers receive is 'restricted', although it includes estate planning and inheritance tax advice. The core fund range numbers about 30, says Connolly, but customers are able to access about 3,000 if they want a wider choice.

"We saw that there were a lot of people forecasting an advice gap before the RDR came in of about five million people," says Connolly. "That's exactly the market that we've pitched in at. And it's interesting to see that financial advisers themselves are now turning back towards that market, lowering their sights a bit but recognising that they can't do that for a 1.5% upfront fee, which is what they would offer their big investing customers."

> *"It seems to me the RDR has had the opposite effect to that which was intended. Protecting small retail customers through greater visibility of fees and charges is all very laudable, however they are now being priced out of the market. Return to self-regulation and a 'do no harm' philosophy, but crack down on the cowboys"*
>
> ***CISI survey respondent***

L&G is something of an exception in the market now because it has consciously adopted a 'vertically integrated' model. It is already a very large asset manager; earlier this year it took full control of the Cofunds platform; and it has a direct distribution network of 140 of its own advisers, as well as servicing Nationwide's much larger team. To date, as Bond observes, the regulator has had little to say about this kind of vertical integration, although that may change.

When Wheatley gave evidence to MPs on the advice gap, he pointed to "the arrival of web-based, internet-based entrepreneurial-type models that are delivering advice in a different form". There is considerable interest in this area and recently the Tax Incentivised Savings Association set up a group to look at how compliant 'simplified advice' can be delivered via routes such as these.

Keyte set up one such service, Well Money Clinic, last year and says it is now the fastest growing part of his business, attracting enquiries from across the UK at five times the rate of his conventional IFA practice. The service, which charges fixed fees from a published rate card, is delivered via telephone, email and Skype.

Solutions may gradually be emerging to address the advice gap that many feared the RDR would open up, but that doesn't mean everything is rosy for retail investors. Keyte says that some managers are preventing retail clients who deal with them directly (instead of going via a fund platform) from converting legacy units into the RDR-compliant share classes if their investment is valued at less than £1m.

One common complaint is that it is harder than ever for customers to work out what they are paying in total for the investment services they receive. Where before, the intermediary, platform and fund management fees were all wrapped into a single AMC, making each element of the overall cost more transparent has ironically made it more complicated for people to add up all the elements of the charge to work out what they are paying overall. In the meantime, clients invested in retail rather than clean unit classes may pay more with adviser and platform charges on top of the AMC. This will continue until the RDR delivers its full benefit and AMCs reduce.

Perhaps this is the ultimate lesson of the RDR – transparency is desirable but it is not the same as simplicity. And for many clients, simplicity is arguably just as important. ■

Help with the RDR

The CISI's Professional Refresher online learning system has four modules focusing on the RDR: Principles of RDR, RDR Adviser, RDR Independence and RDR Professionalism.

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

Visit cisi.org/refresher for more information

Three course dinner followed by a debate on the following motion:

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

1 CPD hour

Book your table at cisi.org/citydebate

As Chairman of HSBC, Douglas Flint's stoic approach is seeing the bank through the burdens of regulation. **Rob Haynes** reports

Flint condition

IN LESS STRAITENED times, being known as a safe pair of hands may not have got you the chair at one of the Big Four banks. Yet late in late 2010, when Douglas Flint CBE assumed the top role at HSBC, safety was clearly at the forefront of the bank's mind. The financial crisis and the reputational damage the industry has suffered as a result of the payment protection insurance, interest rate swap misselling and LIBOR fixing scandals means the landscape a chairman finds himself in is significantly different than in previous years.

Speaking in slow, contemplative tones from his office on the top floor of HSBC's headquarters in Canary Wharf, Flint's logical manner hints at a measured mind, almost stoical. "From my perspective you can only play the ball from where it lands – and try to get out of the rough," says Flint – a metaphor that deftly sums up where many people working in financial services, whether they are chairman or a trainee analyst, now find themselves. "I like to use golfing analogies although I'm no longer much good at golf."

What Flint is good at – and what convinced the powers that be in 2010 – is his familiarity with the regulatory burden now faced by the banking sector. Given the loads created by Basel, ring-fencing in various jurisdictions and a host of other shackles tying down the industry, Flint's 15 years spent as HSBC's Group Finance Director means he is ideally placed to navigate the thickets and thorns of a flourishing regulatory jungle.

"My succession coincided with a time when there was a considerable amount of regulatory

CV snapshot

2010 – Becomes Chief Financial Officer, Executive Director Risk and Regulation and, later that year, is appointed Group Chairman

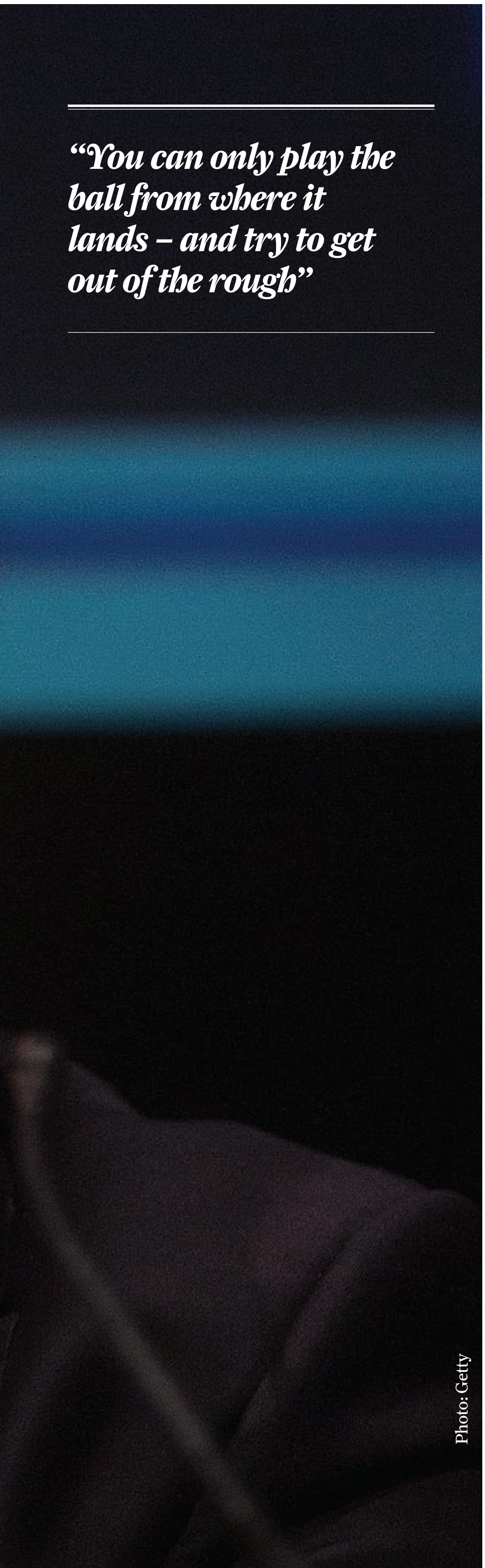
2006 – Is awarded a CBE

1995 – Joins HSBC Group and becomes Group Finance Director

1983 – Completes the Program for Management Development course at Harvard Business School

1977 – Joins Peat Marwick Mitchell & Co (now KPMG) training as a chartered accountant. Becomes a partner in 1988

1977 – Graduates from Glasgow University with a degree in accounting



“You can only play the ball from where it lands – and try to get out of the rough”

Photo: Getty

change being visited upon the finance industry. And therefore the board recognised that this change agenda would be pretty much a full-time job, and had to happen at a high level.”

This raises the prospect of a new model for the relationship between chief executive and chair, essentially one of horses for courses. “The CEO should be concentrating on the operational issues, with inevitably less time to do public policy and regulatory work and, therefore, a chair who is knowledgeable of the change agenda is an advantage,” he says.

Given the very specific duties of regulatory oversight and the ensuing professional demands placed upon his shoulders, Flint’s personal life is understandably sedate. “Away from the office, it’s all family stuff,” he admits with a smile, itemising his family as a wife, grown-up children, three dogs and a cat. “It’s important to combine a high-profile day job with a private life that is fairly normal. It’s important to give yourself the chance to unwind.”

To extend the golfing metaphor, a significant part of the rough amounts to having to deal with the fallout of a US Senate Permanent Subcommittee on Investigation. It alleged that HSBC failed to apply consistently the rules designed to prevent dealings with ‘rogue’ states such as North Korea and Iran, and lacked adequate controls against financial crime risks, which allowed drug cartels in Mexico to misuse the financial system. The result was that the bank was fined £1.3bn, not counting the attendant reputational damage.

In what is clearly a defining characteristic, Flint is refreshingly candid on his bank’s failings. “We were humbled and horrified to discover findings of such magnitude,” Flint told shareholders at the time.

Strength of character

Yet from this position Flint has shown his aptitude to turn a crisis into a point of strength. “It’s incumbent on all senior folk in the organisation to show leadership,” he says with the same sense of candour. “You have to accept the failings, accept the accountability and be part of the drive to instil the required values, skills and processes to give HSBC the best chance to ensure these things don’t occur again.” You also get the impression that in admitting such failings, he has been able to disarm the bank’s most vociferous critics by openly accepting accountability.

Flint has also demonstrated a proactive stance with respect to the issue of tax avoidance, the legally permissible – yet morally questionable – side of reducing your tax burden. He is an important voice in the tax debate: Flint trained as a chartered accountant at Peat Marwick Mitchell & Co (now KPMG), where he became partner before moving on to HSBC in 1995, and serving on the Accounting Standards Board and the Advisory Council of the International Accounting Standards Board from 2001–2004. Speaking at HSBC’s annual shareholder meeting in May 2013, he revealed that use of so-called tax havens by the industry and its clients was being reviewed in response to increased public scrutiny, stating that the “options of being involved with tax havens will reduce”.

It is this strategic mind that sees Flint closely observe the graces of good governance. With an egalitarian nod, he likens his role to conducting an orchestra in the search for reasoned consent and instilling the right culture around him. “Like so many things, to gain the confidence of experienced individuals they must believe in your transparency and integrity, and knowledge of what’s going on.” ■

Too big to succeed?

Where much of the debate around systemic financial soundness has centred on ‘too big to fail’, more astute voices are wondering whether banks like HSBC are too big to succeed. With multiple, complex operations that cover differing geographies and their attendant regulations, it’s easy to appreciate the concern.

“As far as banks are concerned, there is a real benefit from being large and diversified, because the scale and diversification gives you the opportunity to provide the service that larger clients want,” Flint says. “The question is, can you build an architecture of control and service delivery with enough checks and balances so that those at the top can be sufficiently assured the system is working as it should?”

Flint is not of the mind that by splitting big banks into smaller parts, the result is any more controllable, not least because smaller entities wouldn’t be able to afford the controls the big banks can afford. “We shouldn’t be too focused on a single prism of size or complexity. However, when you combine the two, you have to be very careful that the organisational structure around it does bring accountability and responsibility into sufficient intermediary levels.”

These ideals – accountability and responsibility – are part of a corporate parlance that nourishes the good governance agenda. So too is transparency, which for Flint is the salient benefit of the proposed banking ring-fence. “Greater clarity will help those critical of the banking system to have a better line of sight to where the strains and stresses of the system lie.” Yet ring-fencing should not be viewed as a panacea for banking’s ills, least of all systemically.

“It’s not obvious to me it will have a dramatic impact on the aggregate risk in the system – by definition you are simply taking the risk and splitting it into two pieces.”

Divided ON DIVIDENDS

Latest research suggest a rosy outlook for the payment of dividends by the UK's largest companies. But all is not what it seems. **Beth Holmes** investigates

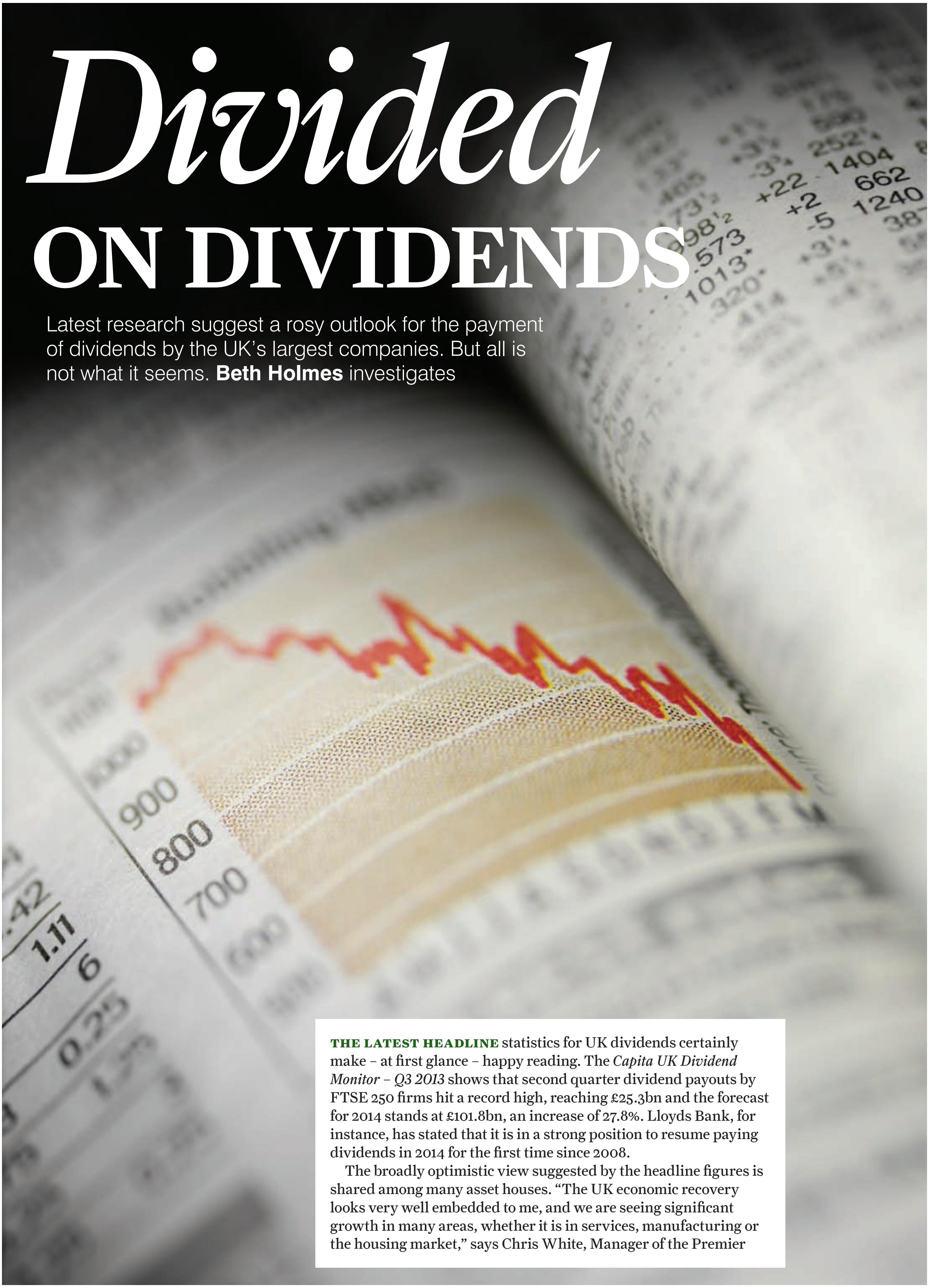


Image: Getty

THE LATEST HEADLINE statistics for UK dividends certainly make – at first glance – happy reading. The *Capita UK Dividend Monitor – Q3 2013* shows that second quarter dividend payouts by FTSE 250 firms hit a record high, reaching £25.3bn and the forecast for 2014 stands at £101.8bn, an increase of 27.8%. Lloyds Bank, for instance, has stated that it is in a strong position to resume paying dividends in 2014 for the first time since 2008.

The broadly optimistic view suggested by the headline figures is shared among many asset houses. "The UK economic recovery looks very well embedded to me, and we are seeing significant growth in many areas, whether it is in services, manufacturing or the housing market," says Chris White, Manager of the Premier

Income and Monthly Income Fund. "I think if companies are doing better, making more profits and increasing their cash flows, then the outlook for dividend growth looks reasonably strong."

Over the past 12 months, dividends have grown about 6.5% in the UK market. White expects this trend to continue. "The balance sheets of corporate UK are strong... and future dividend growth feels well supported," he says. "Companies' cash flows are very healthy and they are using this to either reinvest in the business, pay increased dividends or buy back equities, which enhances earnings per share."

Not so rosy...

Delve a little deeper, however, and the numbers tell a different story. Dividend payouts normally peak in the third quarter, but payments in Q3 2013 failed to top payments made in Q2 for the first time since 2008. As a result, Capita has reduced its full-year forecast from £81.4bn to £79.7bn.

Furthermore, while it is expected that dividends will break the £100bn mark in 2014 (a record), this is largely down to the £16.6bn special dividend that will be paid by Vodafone after its sale of Verizon Wireless.

> *"UK plc has poured £135bn into its pensions black hole, just to stand still since 2008"*

If this is removed, the picture changes markedly – a result confirmed by a recent dip in cover ratios (see box, 'Running for cover'). So what factors might limit the future growth of dividends?

"Dividend growth has slowed down this year quite markedly from recent periods," says Justin Cooper, CEO of Shareholder Solutions, Capita Asset Services. "The most important factor has been a slowdown in profit growth. Companies are, however, very cash rich, and one of the key reasons for this has certainly been a sharp drop in capital investment. That has provided money to support dividends."

There is an important reason why boards are being pushed to pay healthy dividends. Cooper continues: "With yields on bonds and cash so low, investors are relying on equities to provide them their much-needed income, and will have put pressure on boards to keep the dividends flowing and growing."

Follow the money

If companies aren't investing or paying out huge dividends, where is the money going? Are experts anticipating a rush towards capital investment at some point in the future, or are they anticipating higher borrowing costs?

As the figures from Capita suggest, dividends are in fact relatively large (see right), having grown dramatically since 2007, even though overall company profitability has not performed as well in that time. Companies have increased the cash they hold on their balance sheets; net cash, for instance, has increased sixfold since 2008. The reasons for this growth, Cooper thinks, relate to the post-crisis financing environment and a lack of capital investment.

"I would certainly expect corporate investment to return," he adds. "Spare capacity will be exhausted quite quickly as the economy bounces back, and companies will need to expand again." They will also need to upgrade and replace capital equipment. "We don't think investment is likely to be a brake on dividend payments. Overall growth should enable both to be financed." The estimate from his team at Capita is that it will be at least 2017 before dividends top £101.8bn.

Economist Danny Gabay, Co-director of Fathom Consulting, sees a different factor behind the slowdown in dividend growth. "One very important reason that companies have been sitting on piles of cash, spending little on investment and not paying dividends, could be the size of their pension scheme deficits," he says. "UK plc has poured £135bn into its pensions black hole, just to stand still since 2008. That is money that could have gone into investment or, indeed, dividends." This sum is broadly equal to one year's whole business investment spending.

With the jury out over the direction of dividends in the near term, there is concern that dividend stocks have become too costly. Dividend yields on some high-quality stocks have fallen and higher valuations are forcing investors to choose between higher absolute dividends and dividend growth. A cautious observer might say that stocks that merge the two now look expensive.

Green shoots...

During the financial crisis, of course, cash that would have been used to pay dividends was diverted to more needy areas of the balance sheet. Stephen Message, Manager of the Old Mutual UK Equity Income fund, says: "Over the past five years, following the financial crisis, the mindset of many businesses has been to reduce levels of debt, cut costs and limit longer-term investment."

However, the macroeconomic situation that is geared toward recovery is also one that appears to have skewed investors' behaviour. "While interest rates remain low, there is going to be continued demand for equity income shares," says White. Yet he doesn't think we are in the midst of an equity income bubble. "Certain parts of the market are expensive, but I wouldn't say equity income was an expensive area. And if you believe Mark Carney [Bank of England Governor] then interest rates are going to remain low for a considerable period – possibly as long as three years – equities are going to provide good support."

Taxing times

Tax is another factor in the mix. Particularly since the financial crash, there has been much discussion on why there is such a significant difference between the tax treatment of dividend-paying equity and interest-paying debt, and what, if anything, the UK should do about it. John Chown, a principal at international tax specialist Chown Dewhurst, says: "Did excessive debt have a significant influence on the boom that led to the inevitable bust? The present arrangements, coupled with the increasing dominance of pension funds as investors, definitely encourage an increased ratio of debt to equity."

Chown believes there are unresolved issues the UK must face, which may affect the future of dividend payouts: how should the UK co-ordinate relief from double taxation on international corporate profits with relief (if any) from domestic double taxation on dividends; and, how much tax should pension funds bear on their (now very substantial) income from corporate dividends? ■

Running for cover

Research by The Share Centre has shown that among the UK's top 350 listed firms, dividend cover, the ratio defined by profit after tax divided by total dividends paid, was 1.4 at the end of March 2013. The cover ratio for these companies has been falling steadily since a peak of 2.3 in 2011, meaning that dividends are becoming less resilient to any downturn in company profits. The figure of 1.4 compares with average cover ratios of just below 0.7 in the second quarter of 2009.

Total UK Dividends
2007 – £63.7bn
2008 – £67.9bn
2009 – £58.9bn
2010 – £57.9bn
2011 – £69.2bn
2012 – £80.66*
2012 January to September inclusive – £66.5bn
2013 January to September inclusive – £64.7bn

*HSBC paid five dividends in 2012, by bringing forward its usual Q1 payout to Q4, thus skewing the figure for 2012. The January to September figures are like for like.

Backing market forces

Voluntary standards markets and the regulation of financial services

In seeking to build a more trusted, less risky financial services industry, policy-makers may have inadvertently created a business environment that is too costly. Yet with voluntary standards, the price need not outweigh the benefits

A VOLUNTARY STANDARDS market is a commercial system in which actual and potential buyers and suppliers of products and services rely on conformity assessments. Conformity assessments are carried out against standards and can consist of self-certification, second-party and third-party independent verification and certification. With respect to financial services, the CISI joined forces with the BSI (British Standards Institution) to commission Z/Yen Group to explore the area further, looking at: the application of existing standards in the financial services sector; other areas in financial services to which standards markets may be applied; and who would be the potential users of new standards for areas of financial services.

The research team engaged with a cross-section of the financial services sector (including the accounting, legal,

Image: Getty

actuarial and trading professions, insurance, asset management, investment banking, derivatives, foreign exchange and commodity trading) as well as the financial regulatory community, industry bodies, emerging schemes and the accreditation and certification community.

Z/Yen held two events in London with representatives from financial and professional services, trade body associations and academia to discuss the role of voluntary standards markets and their potential in improving financial services regulation.

Researchers interviewed 75 representatives from, or with an interest in, financial services to ascertain how people felt about standards in financial services and in general. A questionnaire was sent to key stakeholders to inform the research on the level of awareness of voluntary standards markets within financial services.

The report finds that voluntary standards could play a greater role in rebuilding a safer and more trusted financial services sector. More specifically it uncovers that:

- Voluntary standards markets are already being used for and by financial services, whether around products (eg, ISO 6166 – International Securities Identification System), processes (eg, ISO 20022 – Universal Financial Industry Message Scheme, or BS 10500 – Anti-Bribery Management System) or people (eg, ISO 22222 – Certification for Personal Financial Planners).
- Financial services appears to be a relatively low user of voluntary standards markets compared with other sectors, and measured by published standards and standards under development at ISO level. ISO Technical Committee 68 for financial services has published more than 50 international standards and has a further 21 under development.
- Other international bodies (eg, the Financial Stability Board, the Organisation for Economic Co-operation and Development, the International Monetary Fund and the International Organization of Securities Commissions) are involved in setting standards for financial services that aim to improve the stability of the financial system nationally and internationally. This process of standards development appears distinct from the ISO standard development process and better integration should be encouraged on common areas of work.
- Financial services is already a heavily regulated sector and more regulation is to come. Such regulation is complex, involving different actors at industry, national and international levels, and carries a cost. Voluntary standards markets could play a greater role, especially in light of developments at the European level towards regulation featuring voluntary standards. A corresponding new approach to regulation in the financial services sector could bring benefits in terms of industry participation, lower cost of regulation and increased confidence in the components of the financial system. Respondents indicated that they would welcome more voluntary standards markets in financial services, especially for people, product and process standards, on their own as well as in combination with government regulation.
- Proposals and discussions are underway to develop voluntary standards in new areas of financial services, including for anti-money laundering, capacity trading, central bank management, hedge funds, peer-to-peer insurance and lending.

Voluntary standards could help foster a safer and more trusted financial services sector

The report also identifies how the industry, standard-setting bodies as well as policy-makers and regulators could foster a market for voluntary standards.
It makes five recommendations:

1. A new approach for financial services regulation, featuring voluntary standards markets, should be promoted. Using voluntary standards markets to regulate financial services where and when possible could lead to added benefits including industry participation, evolution and flexibility of regulation, and, of course, a lower regulatory cost burden. The first recommendation supports this by advocating the creation of a task force and of publicity programmes at industry, national and regional (EU) level to increase awareness of voluntary standards markets and seize opportunities for the use of voluntary standards as part of new regulatory initiatives.
2. Existing voluntary standards development efforts for the sector should be better co-ordinated and integrated. This second recommendation stems from the finding that several organisations at national and international levels are involved in voluntary standards development for financial services, including ISO, national standard bodies (eg, BSI) as well as the Financial Stability Board and other standard-setting bodies in the sector. Better co-ordination and integration of efforts on common areas of interest could bring additional benefits in terms of efficiency, but also future voluntary standards markets development.
3. More evidence of the benefits and costs of voluntary standards markets is needed. While there is awareness of voluntary standards markets, they need to be further understood, including their related risks and opportunities. Such evidence would also be useful to monitor the evolution of voluntary standards markets and document better their impact on the wider economy.
4. A strong financial services community should be established around voluntary standards markets. Voluntary standards markets cannot emerge without a community of stakeholders. This fourth recommendation is deemed necessary to build confidence in voluntary standards markets, to encourage participation and to improve the visibility and credibility of the industry. The community should also seek to promote dialogue between standard-setting bodies, trade associations and professional institutes, as well as with relevant government bodies and officials.
5. Efforts should also be devoted to integrate voluntary standards markets for financial services with wider policies of government to increase the attractiveness of standards, improve surveillance and cost reduction of accreditation and certification processes, and to increase dialogue on the promotion of competition and development of markets.

Initial findings of the research, presented on 14 October at the 'Long-Term and Sustainable Finance' conference, hosted by the CISI and the European Federation of Financial Analysts Societies, were warmly received. The final report, which was published in November at an event hosted by the City of London Corporation, is available at cisi.org/standards. Comments on the report are welcome – please send them to **george.littlejohn@cisi.org**. The launch event at London's Guildhall, 'Wake up and smell the standards,' is available to members on CISI TV. ■

Alderman Professor Michael Mainelli, Chartered FCSI is Executive Chairman of Z/Yen Group, the City of London's leading commercial think-tank

Chiara von Gunten is Z/Yen's Head of Business Development and Professional Services in Switzerland. Her interests include finance, sustainable development and macroeconomics

Guilt by association

How should a non-executive director go about protecting his reputation?

BOB IS AN experienced senior manager who has spent most of his working life in the securities industry. During this time, he has been an approved person and held board-level positions in FSA- and FCA-regulated firms for many years. He has always enjoyed good relationships with other industry practitioners, as well as serving on a panel advising the regulator.

Bob is now semi-retired and holds a number of non-executive directorships, including one with Optimist, a small wealth manager. In addition to his non-executive director roles, Bob is also on the board of trustees of Marmoset, a small but well-known and highly respected medical charity.

An internal review of Optimist's business practices resulted in Bob being asked to lead an informal study of how the firm met customer due diligence obligations, such as 'know your customer' when taking on a new client and subsequently monitoring its transactions.

Staying quiet

Bob's findings were that Optimist's processes were not of the standard suggested by the industry guidance. Although this was accepted by Optimist's Chairman, Kevin, he did not feel it politic to pursue the matter in the face of open hostility from Adam, the Chief Executive, who was resolutely opposed to taking any action that might upset customers. Although Bob felt that Kevin should really have pressed the point with Adam, as it could have unfortunate consequences, he felt that, as a non-exec, he did not wish to make waves and so accepted the outcome and maintained his position on Optimist's board.

> ***The fine vindicates Bob's report, but it casts doubt on his other appointments***

More than a year had passed since Bob had presented his report when Optimist was the subject of an in-depth regulatory visit. The outcome of this visit was that the regulator was heavily critical of Optimist's procedures, which it felt did not conform with industry norms and regulatory requirements. In consequence, it levied a substantial fine on Optimist.

Although the regulator's report was very critical, it did not publicly name any individual officer of Optimist as being responsible for the firm's failings and there was no external pressure on Bob or any other board member to consider their position. Indeed, Bob felt that, expensive though it was, the fine vindicated his report and he went out of his way to ensure that appropriate remedial action was put in place.

Image: Shutterstock

A few days after the regulator had made public the results of its review of Optimist and the subsequent fine, Bob received an email from Steven, the Chairman of the trustees of Marmoset.

Steven said that he had seen the regulatory news about the fine on Optimist and, knowing that Bob was a director, wondered whether the contents of the report and accompanying fine would, or should, have any impact on Bob's role as a trustee.

On reflection

Up to that moment, Bob had not really thought about the matter as having any wider consequences, beyond his role with Optimist. Since no individual criticism had been made, he felt comfortable remaining a non-exec, and a trustee of Marmoset, at least for the time being. However, he now felt that perhaps he should review his position in more depth and, in doing so, felt that there were a number of potential courses of action open to him.

So, what should Bob do?

- He should advise the chairman of Marmoset of the circumstances and say that the regulatory censure of Optimist was against the company, not him as an individual and, therefore, there was no reason why he should resign from Marmoset.

- He should review all of his non-executive directorships and make the various chairmen aware of his involvement in Optimist and its regulatory censure, but leave it to the individual chairmen to decide what action to take.

- He should resign his position at Marmoset, because its charitable status requires the trustees to be of absolutely unblemished reputation. Even if he was not named personally in the regulatory investigation of Optimist, he was a director at the time and, therefore, guilty by association, which may damage Marmoset's reputation.

- He should resign from Marmoset, because it is a charity, but there is no need to resign his other directorships, because regulatory censure is an accepted cost of doing business. If every director who was involved in a business that was censured by the regulator chose to resign, business would have problems finding sufficient directors. ■

*Visit **cisi.org/ned** and let us know your favoured option.*

The results of this survey and the opinion of the CISI will be published in the February 2014 edition of the S&IR.

Personal favours THE VERDICT

The apparently well-intentioned actions of Jessica, a bank employee, deprive her firm, Newclea, of significant income. This is to the benefit of customer firm Acorns, the employer of Michael, who is a non-executive director of Newclea. But is this all as open as it might be and what are the motives and responsibilities of those involved?

This was the dilemma that appeared in the September edition of the *S&IR*. Readers were invited to vote in a poll on the CISI website on the course of action they would advise Newclea to take, choosing from four options.

The CISI response

This dilemma generated a wide variety of views as to how to respond to what is, in fact, a case of fraud – however unwitting one or more of the participants may have been. The fact that money did not change hands perhaps caused respondents to show more leniency than they would otherwise have done, but it should not be overlooked that one party suffered a large loss of income and the other a similar benefit.

Having said that, all of the suggested responses had their supporters, the least popular one being an option to sack Jessica and involve the police. Perhaps that is because we respond differently to cases of 'white collar crime' as opposed to, say, burglary, but it remains crime nevertheless.

Responses A, B and C all suggested severing the connection with Jessica (your member of staff) whether by allowing her to resign or by sacking her, while responses A and B suggested that Michael and Acorns (the beneficiaries of Jessica's action) should be pursued. This would certainly be appropriate in the case of seeking financial restitution, but it might be difficult to prove criminal intent in their actions.

Accordingly, our recommendation is to involve the police, in which case sacking Jessica would be the appropriate form of dismissal. At the same time, pursuit of Michael and Acorns should be attempted as their actions fall within the terms of the Fraud Act 2006. Although such action might prompt an offer of financial restitution, the prospects of success in obtaining a conviction for fraud against Michael are likely to be determined by the skill of his counsel.

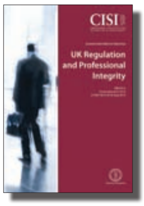
Need to read

The latest publications and study aids supporting CISI qualifications

NEW WORKBOOK AND ELEARNING EDITIONS

Regulatory titles

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



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

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

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

NEW WORKBOOKS AND ELEARNING EDITIONS

Investment Advice Diploma titles

Workbook and elearning editions (covering exams from 31 December 2013) of the following titles are out now:

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

Derivatives: The aim of this unit is to provide those advising and/or dealing in derivatives with the knowledge and skills required for their job roles.

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

NEW WORKBOOK EDITION

International Introduction to Securities & Investment, Arabic version

The Arabic translation of the *International Introduction to Securities & Investment* workbook provides an introduction to the world of financial services for people working outside the UK. It looks at the economic environment and the participants in the global financial services industry. A new edition (covering exams from 11 January 2014) is out now, covering:

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

Price: £75

NEW WORKBOOK AND ELEARNING EDITION

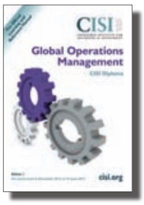
International Certificate in Wealth and Investment Management

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

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

Price: £100 for combined workbook and elearning product

NEW WORKBOOK



Global Operations Management

Global Operations Management, part of the Diploma programme, will assist candidates with their understanding of operations and settlement procedures in order to service effectively the operations and settlement needs of a firm and its clients. The corresponding workbook (covering exams from 6 December 2013 to 27 June 2014) is out now, and covers:

- equities, bonds and fixed income
- funds, cash and money markets
- financial derivatives
- the trading environment
- clearing and settlement
- regulation and compliance
- asset servicing and custody.

Price: £150

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

ONLINE TOOL

Professional Refresher

The CISI's Professional Refresher is a training solution to help you remain up-to-date with regulatory developments, maintain regulatory compliance and demonstrate continuing learning.

New modules are added to the suite on a regular basis and existing ones are reviewed by practitioners frequently. At the end of each module there is a test which will help you to determine how much knowledge you have gained.

The product currently consists of more than 50 modules, including:

- anti-money laundering
- behavioural finance
- conduct risk
- cybercrime
- financial crime
- the UK regulatory environment
- taxation.

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

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

External specialists

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

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

The CISI would particularly welcome applications from specialists to assist with developing exams, Advanced Global Securities Operations, Commodity Derivatives, Corporate Finance Regulation, Derivatives (level 3 and 4), Exchange-Traded Derivatives, Over-the-Counter Derivatives, Operational Risk and Securities (level 3 and 4). To register your interest, please contact Iain Worman on *+44 20 7645 0609* or download the application form via *cisi.org/externalspecialists*

Diary

Events to attend over the coming months

CPD training courses

Venue: London, unless otherwise stated

10 DECEMBER Mifid 2 and the New Regulatory Structure† £500

12 DECEMBER Sanctions Breaches – Avoiding Expensive Enforcement!† £500

14 JANUARY Integrity & Trust in Financial Services £300

16 JANUARY Updated Thinking for Packaged Products† £500

21 JANUARY Retail Derivatives Update (half day, morning)† £300

21 JANUARY Retail Securities Update (half day, afternoon)† £300

28 JANUARY Suitability & Appropriateness: Avoid Misselling!† £500

4 FEBRUARY Getting to Grips with Risk Management – for Non-Risk Professionals† £500

5 FEBRUARY Client Assets and Client Money (CASS)† £500

6 FEBRUARY Mifid 2 and the new regulatory structure £500

11 FEBRUARY FATCA and Global Tax Disclosure – Its Impact on Your Clients (half day, morning)† £300

Member and Fellow discounts

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

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

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

London CPD events

6 JANUARY **Peace and Quiet in Europe (Please)**
London School of Economics, Houghton Street, WC2

9 JANUARY **Behavioural and Communication Skills for Wealth Managers**
SWIFT, The Corn Exchange, 55 Mark Lane, EC3

14 JANUARY **Peace and Quiet in Europe (Please)**
McGraw Hill, 20 Canada Square, Canary Wharf, E14

15 JANUARY **The Changing Shape of UK Trade**
Museum of London, 150 London Wall, EC2

21 JANUARY **Financial Services and Social Media Don't Mix – and Other Myths**
America Square Conference Centre, 1 America Square, 17 Crosswall, EC3

22 JANUARY **Frontline Fund Governance for the New Pension Paradigm**
Z/Yen, 90 Basinghall Street, EC2

28 JANUARY **Confessions of a Chartist Wealth Manager**
SWIFT, The Corn Exchange, 55 Mark Lane, EC3

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

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

CPD roadshows

The CISI is holding a series of roadshows to enable members to discuss with members of its Executive team latest developments in meeting and documenting their CPD obligations.

9 DECEMBER Liverpool
Investec, The Plaza, 100 Old Hall Street, L3

10 DECEMBER Manchester
Brewin Dolphin, 1 The Avenue, Spinningfields Sq, M3

7 JANUARY Newcastle
Brewin Dolphin Investment Management, Time Central, Gallowgate, NE1

13 JANUARY Glasgow
TBC

14 JANUARY Edinburgh
TBC

14 JANUARY Leeds
DoubleTree by Hilton, 2 Wharf Approach, Granary Wharf, LS1

15 JANUARY Tunbridge Wells
The Spa Hotel, Mount Ephraim, TN4

16 JANUARY Bristol
Rathbones, 10 Queen Square, BS1

17 JANUARY Guildford
Yvonne Arnaud Theatre, Millbrook, GU1

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

28 JANUARY Birmingham
TBC

29 JANUARY Jersey
The Royal Yacht, Weighbridge, St Helier, JE2

30 JANUARY Guernsey
The Old Government House, St Ann's Place, St Peter Port, GY1

4 FEBRUARY Belfast
Ulster Reform Club, 4 Royal Avenue, BT1

6 FEBRUARY Bournemouth
J.P. Morgan, Wiltshire Building, Chaseside, BH7

RDR type: RDR guidance

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

Branch events

10 DECEMBER **Christmas Drinks Reception**
Birmingham & West Midlands: Metro Bar, 73 Cornwall Street, Birmingham, B3

11 DECEMBER **Portfolio diversification with commodities†**
Guernsey: The Old Government House, St Ann's Place, St Peter Port, Guernsey, GY1

12 DECEMBER **Christmas Drinks Reception**
Liverpool & North Wales: Circo Bar, Britannia Pavilion, Albert Dock, Liverpool, L3

12 DECEMBER **Christmas Drinks Reception**
Guernsey: Muse, Marina Court, Glategny Esplanade, St Peter Port, Guernsey, GY1

20 DECEMBER **Christmas Drinks Reception**
Manchester & District: The Ape & Apple, 28–30 John Dalton St, Manchester, M2

15 JANUARY **UBS House View and Year Ahead Outlook†**
Jersey: The Royal Yacht, Weighbridge, St Helier Jersey, JE2

16 JANUARY **Generic Leadership**
Birmingham & West Midlands: Barclays Wealth, 1 Colmore Square, Birmingham, B4

28 JANUARY **Important Considerations When Selecting Closed-ended Investment Companies and Exchange-Traded Funds†**
East Anglia: National Skills Academy, St Andrews House, St Andrews Street, Norwich, NR2

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

RDR ANNUAL CPD

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

Professional forums

Corporate finance forum


Marcus Stuttard

ISDX, AIM, GXG... what does it all mean? That was the question addressed at a Corporate Finance Forum event that provided an insight into the UK's junior markets. The event, held at Wragge & Co in the City of London, featured a line-up of top speakers.


Ian-Patrick Lauder

Marcus Stuttard, Head of the Alternative Investment Market (AIM) at the London Stock Exchange (LSE), highlighted that while some overseas growth markets have been quiet, since 2009 AIM has raised £22bn. He said that the introduction of the Rules for Nominated Advisers (NOMADs), ahead of the recent recession, had been timely and the pipeline of deals looked healthy. Ian-Patrick Lauder, Business Development Manager at the LSE, talked about the criteria for allocation of smallcaps on the AIM platform and Rule 3081, which prohibits the execution of trades on exchange at terms that are worse than firm quotes available, except under certain circumstances.


Paul Haddock


Simon Kiero-Watson

With ISDX having changed its rules recently, a new points-based system of suitability has been introduced. This was reviewed by Paul Haddock, Head of Business Development and Sales at ISDX. He said that most companies will now need minimum requirements to be admitted (or for existing companies to remain listed).

Simon Kiero-Watson, Head of Markets at GXG Markets, said that the firm is about to celebrate two years in London operating a European regulated market and two junior markets. It uses matched bargain technology and is authorised and regulated under Mifid by the Danish Supervisory Authority, having recognised stock exchange status from HM Revenue & Customs, allowing ISAs to invest. He summarised GXG as a market "without red tape" for smaller companies.

Nick Bealer, Chartered FCSI chaired the meeting and reviewed other markets that provide services to small and medium-sized enterprises in the UK, at different levels.

Following a question and answer session, Nick concluded the event by saying: "We are exceptionally fortunate in the UK as our markets are, in many ways, the envy of the world, especially in respect of our junior markets."

The Corporate Finance Forum is one of six forums run by the CISI. The others cover compliance, risk, financial technology, operations and wealth management. For more information about forthcoming meetings, visit cisi.org/pf

EVENTS

Annual dinners raise cash

Annual dinners held by the CISI's Isle of Man and West Country branches collectively raised more than £2,000 for charity.

At the Isle of Man dinner, £1,200 was collected for the Isle of Man Hyperbaric Medical Facility, which uses oxygen therapy to help a range of people from injured sports stars to patients with chronic conditions.

Guest speaker was broadcaster Eve Pollard, former editor of both the *Sunday Times* and *Sunday Express*. The event, held at Mount Murray Hotel, was attended by 140 guests and was sponsored by ETF Securities.

The West Country event raised £900 for the Outward Bound Trust, an educational charity that runs challenging outdoor activities for young people. Guest speaker was author Neil Hanson, a prolific ghostwriter whose clients have ranged from a cricket star and a spy to a US show business legend.

Some 90 guests attended the dinner at Exeter University, which also featured musical entertainment and a fun casino.

CHARITY TREK

CISI team conquers Jebel Toubkal

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

Nadia Hassan, Nicola Levett ACSI, Alex Blunden and George Littlejohn MCSI from the CISI embarked on a charity climb of Morocco's mount Jebel Toubkal, which at 4,167m is the highest peak in the Arab world. The climb was in aid of Merlin, a UK-based humanitarian charity and the team raised almost £3,000 from friends and colleagues, plus substantial ongoing funding from supporters in the Arab world.

George, Senior Adviser at the CISI and a former trustee of Merlin, said: "What a great team effort. We're grateful to the many CISI members and colleagues who contributed, helping us beat our target by a mountain mile, and to friends in the Arab world who have been inspired to contribute yet further."

More details at *cisi.org/merlin*

ONLINE

LinkedIn update

The CISI now offers a range of LinkedIn subgroups so that members can connect with colleagues in their region, get updates on local events and discuss industry hot topics.

These include networks for Bristol & Bath; East Midlands & Lincoln; Liverpool & North Wales; Scotland; South Coast; South East and Wales.

Members can go to *cisi.org/linkedingroup* to join the relevant subgroup and start taking advantage of this benefit.

Membership admissions and upgrades

MCSI
3D Global
Mark Nowell
Abax
Devindra Collappen
Barclays
Martin Cuthbert
Simon Smith
Alexander Strudley
Bartleet TransCapital
Indrajith Fernando
Berry
David Matthews
BNP Paribas
Nicole Clarke
Brewin Dolphin
Dalbinder Bhartti
Rachel Biggar
Samantha Dolby
Rory Kilbride
Lucy Walter
Andrew Williams
Brilliance Financial Planning
Susi Taylor
Brooks Macdonald
Edward Channing
Clare Delaney
Canaccord Genuity
Benjamin Bavin
Caxton
Hardeep Attwal
Cazenove
James Hall
Nathalie Krekis
Charles Stanley
William Game
Colin Kerr
Charles Thomson
Charles Thomson
Close Brothers
Ian Glassock
Cordium
Michael Strug
Coutts
Simon Boyle
David Batey
Joseph Somerville
Credit Suisse
Luca Arpaio
Martin Burke
Mark Elliott
Karen Emanuel
Fiona Lucas
Jason Porter
Ahmed Rawaf
Alberto Recchi
John Ridout
Claudia Schuerch
Raminder Singh
Credit Union Central of Manitoba
Nicholas Rawluk
Day Cooper Day
Patrick Day
Deadalus Partners
Stephen Norton
Deutsche Bank
Arthur Da Gama
Adam Parker

Membership admissions and upgrades

Douglas Alexander
Alexander Ianson-Jones
First Caribbean Bank
Krystle Maynard
Fleet Street Publications
Stephen Bland
Fund Advisers
Cindy Schuster
Generali
Glen Broadhurst
Hargreave Hale
Aled Jones
Homebuyer Financial Services
David Troy
HSBC
Alastair Barron
Garry Crooks
Craig Gallie
Edward Gledhill
Claude Greilsamer
Ghanshyam Khandelwal
Teresa Pereyra
Dean Scott
Peter Sohier
Integrated Financial Arrangements
Barlas Remzi
INTL FCStone
Mustapha Abbas
Invesco Perpetual
Matthew Perowne
Investec
Zoe Bancroft
Cheryl Philp
J.P. Morgan
Christopher Jones
J&E Davy
James Cahalane
JSW Steel
T.P Subramanian
Landesbank
Martin Brammer
Lloyds TSB
Caoimhin O'Broin
McInroy and Wood
Pauline Drysdale
Messrs. C. Hoare & Co
James Hoare
Minter Ellison
Edward Lean
New Kabul Bank
Sahibzada Noor
Newton & Garner
Peter Montague
Scott Mordrick
NYSE Euronext
Alexander Stott
Optimus
Alexander Popplewell
Pursuit
Yancheng Qiu
Quilter Cheviot
Katrina Duffy
Antony Webb
Rathbones
Thomas Perks
Ravenscroft
Scott Spencer
Raymond James
Paul Bridge
Mark De Ste Croix
Reed Elsevier
Sara Louise Bennett
Regents University
Perinparajah Joseph
Rivers State Ministry of Finance
Uche Ideozu
Rothschild
James Cazenove
Royal Bank of Scotland
Nicholas Smith-Saville
Santander
David Agyei-Pryde
Saunderson House
Ben Williams
Schroders
Crispin Vollers
Seven
Rana Roushdi
Shell
Fraser Johnson
Speechly Bircham
Victoria Younghusband
Speirs & Jeffrey
Stephen Hall
SS&C Technologies
Stacy Collins
Standard Bank
Peter Tompkins
TD Direct
Lorna Whalley
Thesis
Tom Low
Triple Point
Graham Robertson
True Potential
Keith McDonald
UBS
Rami Naimi
John George Ramsay
UK Portfolio Management
Stephen Wood
Wingate
Paul Hyland
Other
Guy Anderson
Mengran Cai
Chetan Champaneri
Colin Chapman
Rakis Christoforou
Joanna Dentskevich
Emmanuel Florendo
Francis Kajura
Saketh Kaveripatnam
Ian Montgomery
Martin Murray
Nicholas Parker
Arun Leon Ramaswamy
Christina Stieglbauer
Kin Sue
Kristian Vind

ACSI

Alexander David Securities
Simon Pennington
Apex
Ben Harrison
AXA
Peggy Mattock
Barclays
Robin Bickerstaffe
Nigel Brisbane
Amy Goodson
Christopher Kavanagh
Jamieson Mornington
Bestinvest
Sophie Muller
BNP Paribas
Claire-Louise Gliddon
James Thelwall
Brewin Dolphin
Graeme Cunningham
William Jeffs
Capital International
Tara Marie Lampitt
Chadwicks
Radostina Dencheva
Charles Stanley
Ria Shepheard
Cheviot
Claudia Quiroz
CIBC
Jason Ebanks
Citi
Stathis Koitosis
Citibank
Shmuel Andreev
Igor Petreanu
Citigroup
Mohammad Talukder
Collins Sarri Statham
Ozan Kazim
John Kershaw
Ravi Lockyer
Thomas Pattenden
Cornèr Banque
Alejandro Jaussi
Myriam Larbi
Coutts
Oxana Belousova
Ben Taylor
Credit Suisse
Qiaojiam Li
De Montfort University
Martin Smith
Deutsche Bank
Sharon Fairfield
EFG Harris Allday
Amrit Nepaul
Oliver Williams
EFG Private Bank
Anna Daningeli
Carol Lindon
Equiduct
Ryan Hornsby
Falcon
Mikhail Tabakov
Fisher
Faith Pozzy
Funds-Axis
Luke Martin
FXCM Securities
Alberto Mellone
Halifax
Laura Wardle
Henderson Rowe
Jordan Walker
Holbein Partner
Stephen Jones
HSBC
Alexander Cugley
Gurpreet Singh
Hardip Kaur Tawana
Dan Xie
Investec
Tautginas Cijunelis
J. P. Morgan
Roberto Mandorino
Benjamin Rayner
James Brearley
Anna Szylar-Czerniawska
JM Finn
Tamson Martin
JN Financial
Rijwan Ahmed
Maxamilian Delamain
Alexander Napper
Blake Reddy
Julius Baer
Sofia Gradoni
Killik
Sarah Crowley
Kleinwort Benson
Lucy Gazmararian
Macquarie Capital
Giovanni Della Pesca
Menzies
Diya Bhavna Luhar
MoneyWeek
Samantha West
Nigerian Stock Exchange
Bernard Ahanaonu
Bridget Igiehon
Nomura
Ifiok Ekwere
Ogier
Ben Hamilton
Old Mutual
Zororo Chirema
Pictet
Anthony Cheung
Pool Reinsurance
Richard Hansen
Qatar Finance and Business Academy
Josiane Karam
Quai
Peter Bell
Ravenscroft
Aiysha Choudry
Redmayne-Bentley
Lee Barker
Rowan Dartington
James Kitchen
Royal Bank of Canada
Davide Boglietti
Stuart Coppen
Selftrade
Sean Clinton
Seven
Stuart Foster
Smith & Williamson
Alison Joss
Nicholas Scarborough
David Slyfield
Standard Bank
Joel Harris
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Omar Nadhmi
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Stanhope Capital
Luca Marchionni
Stanlib Broker
Namedi Modisi
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Talos Securities
Thomas Binder
Target Loan Servicing
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Kristy Appleby
Philip Bailey
Chris Brewer
Andrew Ellis
John Emery
John Gibson
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James Holman
Adam Jones
Kevin Longmate
Obrempong Manu
Mark Meston
Philip Morgan
David Probert
Rupinder Randhawa
Alex Snaith
Kevin Spence
Clare Spooner
Daisy Tate
Jeffrey Weston
TD Waterhouse
Steven Barrick
Teachers Assurance Company
Emily Walker
Telefonica Europe
Rafal Szaniawski
UBS
Alasdair Gaston
Anne-Marie Lobo
Kairat Satkyn Ulu
Russell Terry
VSA Capital
Bonnie Hughes
WH Ireland
Miles Nolan
Whitechurch Securities
Benedict Willis
Yealand
Steven Bourne
Others
Alexander Boni
Gerard Campbell
Nicholas Falzon Sant
Manduca
Robert Fullman
Imran Khawaja
Rishi Madhvani
Micky Mahbubani
Simon Morley
Sasan Munro

Chartered FCSI

Arbuthnot Latham
Jonathan Clatworthy
Barclays
Nicholas Hair
Andrew Spivey
Bestinvest
Sam Coppin
Thomas Hawkins
Brewin Dolphin
Jonathon Croggon
William Kendrick
Luke Pearce
Ian Pluves
Brown Shipley
Barrie Charnley
Butterfield Private Bank
Saskia Mareike Shea
Charles Stanley
Mark Henderson
Cheviot
Fraser Wilkinson
Credo Capital
Nicholas Hooper
Deutsche Bank
Paul Frame
Paul Treacy
EFG Harris Allday
Ronald Treverton-Jones
Hargreave Hale
Guy Feld
Investec
Caroline Jarvis
Audrey McKinstry
Nicola McMurray
James Sharp
Ian Thompson
Jefferies International
John Sturges
JM Finn
Hugo Bedford
Kleinwort Benson
David Goebel
Lloyds TSB
Guy Tulloch
Moore Stephens Retirement Solutions
Michael Buffini
Morgan Stanley
Kevin Gilfillan
Nedbank
Rebecca Williams
Oriel Securities
Matthew Cady
Psigma
Christopher Catchpole
Rathbones
Corinne Bathgate
Rowan Dartington
James Gardner
Sanlam Group
Vanessa Eve
SG Hambros Bank
Jonathan Torode

Chartered MCSI

Ashburton
Evyleen Bisson
Barclays
Harvey Chapel
Craig Salisbury
James Scott
Brewin Dolphin
Jeffrey Ball
Christopher Hynes
Alexander Lyell
Charles Schwab
Simone Porter
Charles Stanley
George Coster
James Rawlingson
Chawker
Edward Goodchild
CPL Consulting
Luke Anusiowu
Ferry Financial
David Ferry
Habibsons Bank
Agha Ijteba Ali
HSBC
Simon Allister
Neil Hutchison
Killik
David Baldry
James Gatehouse
Kleinwort Benson
Andrew Kinsey-Quick
Richard Stanwell
Nedbank
Susan Christian
Price Bailey
Steven McGregor
Quality Comfort
Khalid Shahnawaz
Raymond James
Barry Bennett
Redmayne-Bentley
Nicola Loudon
Seven
Nicholas Bowman
Standard Bank
Christopher Berry
Trading Technologies
Russell Toop
Union Bancaire Privée
Alasdair Niall Stewart
Warner Matthews
Jonathan Matthews
Others
Timothy Connell
Richard Edwards
Josephine Morrison
Richard Robson
Martin Varley

This list includes admissions and upgrades from 13 August to 17 September 2013

Answers to the quiz from page 10: 1:D, 2:B, 3:B, 4:A

A wine ROMANCE

Wine isn't merely a drink to Nick Swales, Chartered FCSI – it's a liquid asset. **Lora Benson** reports

Nick Swales, Chartered FCSI

ORNITHOLOGY IS BIRD watching. Campanology also probably rings a bell with you as a pastime. But what about oenology?

It's the study of wine – something that Nick Swales enjoys outside of his busy job as Regional Director at Rathbones' new office in Newcastle-upon-Tyne. Nick, born and bred in the North East of England, is also a member of the CISI Board and Chair of the Institute's Education Board Committee.

"Wine is a fascinating subject that involves many aspects; there is the growing itself and the effects that climate, geography, soil etc, have on the wine.

"There is the business and the politics of wine and even science involved in its production. I read about all of these aspects to increase my knowledge of the subject."

Nick's interest stretches to collecting wine.

"My collection is in three groups. The first I refer to as my 'glug': this is the small collection I keep at home for weekend drinking. The second group is my investment portfolio, which is stored professionally in optimum conditions. I liken this to a nominee account in wealth management terms. Finally, I have a few connections at various vineyards that I can call to have something different or interesting sent for a special occasion."

Nick, who has enjoyed a 27-year career in financial services, says his advice to anyone wanting to invest in wine is to do their homework, and tread carefully.

"One needs to remember that investing in wine is not a regulated activity. There have been a number of high-profile scams and collapses in recent years.

"I employ a wine broker on an advisory basis; discretionary services are also available. I apply the same techniques to my wine portfolio as I do to financial investing: research, diversification (geographic, style, maturity dates, etc) and so on. It takes work but it is fun and interesting and, just like the markets, it is a long game!"

Class in a glass

Nick says his interest in wine "beyond drinking a nice glass of red" was sparked when he attended a wine course around 15 years ago.

"Subsequently I took evening classes for about four years and have been on a wine fact-finding tour in Bordeaux and to several international wine-tastings in London."

Another avenue for Nick to indulge his passion is his family holidays, which now regularly include one allotted wine-themed day. "This year, whilst driving back from a European trip, we stopped off in Reims (the centre of Champagne production) to visit a couple of producers," he says.

In future, Nick would like to gain some wine-related qualifications. He says: "The UK industry has its equivalent of the CISI called the Wine and Spirits Education Trust. I fully intend to take a number of its exams in the next few years."

Nick enjoys teaching beginners the basics of wine-tasting, running fun events that include a wine-based quiz.

"I usually do this for a small donation to the Percy Hedley Foundation, a charity for disabled people in the North East, which I chair."

At one of these events, Nick got more than he bargained for. He recalls: "One of the participants became a little over-enthusiastic at the tasting stage and took too much red wine into their mouth which led to them having to expel it again, all over me! I now wear a protective apron at wine tastings."

> *"One needs to remember that investing in wine is not a regulated activity"*

Nick says that consumers can nowadays enjoy good quality wine without spending a fortune, and he has some useful tips to help in bagging a bargain.

"The major supermarkets stock a range of wines unimaginable only ten years ago. Among them are some real gems, quality and price-wise but one needs to beware as many of their 'special offers' are not so special. My advice is get to know the department head at your local supermarket and they will keep you right."

He also points to the benefits of paying just a couple of pounds more for a bottle of wine than you might normally.

"This is no truer perhaps than at the bottom of the price range," says Nick. "In a £5 bottle of wine in the UK, the following broad numbers apply. There is fixed duty of £2 on the wine, the bottle, cork or screw top, the label and transportation may add another 75p and there is the retailer's margin of around £1 and VAT at 20% on all of this, meaning that you get only about 50p worth of wine. Increase your spend to around £7 and you will double the amount that is expended on the wine itself and thus you ought to see a noticeable improvement in quality." ■

Nick in the barrel hall of wine producer Château Pichon Longueville Comtesse de Lalande in Bordeaux

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

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