

THE Review

Q2 2017

CISI.ORG/REVIEW

PROVIDING INSIGHT AND ANALYSIS FOR FINANCIAL SERVICES PROFESSIONALS

CISI
CHARTERED INSTITUTE FOR
SECURITIES & INVESTMENT

25
YEARS

ifp
INSTITUTE OF
FINANCIAL
PLANNING



John McFarlane
FCSI on pay,
ethics and what
we want from
Brexit

How will a
cashless world
change the way
we serve our
customers?

Donald Brydon
reflects on a
48-year career
in the City

Our future

**AS THE CISI TURNS 25, MEET THE GENERATION
SHAPING FINANCE IN THE NEXT QUARTER CENTURY**



The future of finance

Our 25th anniversary edition cover feature highlights some outstanding young professionals who instil confidence in the future of the financial services professions



“ There will be a huge shift in the mix of allocations between capital and labour ”

AHMED YAQOUB MCSI, 23
FX trader, Lloyds Banking Group
CISI Awards Ceremony 2017: winner, Fund Management



STEPHEN LENNON Chartered FCSI, 35
Regional sales manager, Parmenion Capital Partners
CISI Awards Ceremony 2014: winner, Applied Wealth Management

“ I am very proud of the de-accumulation specific investment solution which I developed ”



“ Millennials will lead the charge in adoption and innovation of technology ”

JENNIFER O'NEILL Chartered MCSI, 28
Investment manager, Quilter Cheviot
CISI Awards Ceremony 2015: winner, UK Regulation & Professional Integrity



OLIVER KNIGHTS MCSI, 26
Assistant vice president, Credit Suisse UK
CISI Awards Ceremony 2017: winner, Private Client Investment Advice & Management

“ Newspapers and cash might be long extinct ”



“ All personal financial transactions will be confirmed using biometric data ”

TOBY GRAINGER ACSI, 31
Director of cost management and analytics, UBS AG
CISI Awards Ceremony 2015: winner, Advanced Operational Risk



“ Data will be the new 'natural' resource ”

SAMUEL CHUNG ACSI, 26
Assistant vice president, Citi Private Bank
CISI Awards Ceremony 2015: winner, Investment Advice Diploma



FARIDA HASSANALI CFP™ Chartered MCSI, 30
Paraplanner, UBS Wealth Management
Head of Paraplanner Interest Group and member of IFP Professional Forum Committee

“ In 2042 we will be studying 2016 as a significant period in history ”



“ Compliance is about putting the customer first ”

SIAN D'AMORE Chartered MCSI, 30
Compliance officer, Smith & Williamson Investment Management
CISI Awards Ceremony 2014: winner, Combating Financial Crime



CHARLOTTE MOSELEY, 27
Relationship manager, HSBC Private Bank UK
CISI Awards Ceremony 2015: winner, Financial Markets



SEBASTIAN TAYLOR Chartered FCSI, 32
Investment adviser, Charles Stanley
CISI Awards Ceremony 2016: winner, Applied Wealth Management



FELICITY HOOPER MCSI, 35
CGT manager, Investec Wealth & Investment
CISI Awards Ceremony 2016: winner, Advanced Global Securities Operations



JAMES GROOM Chartered FCSI, 33
Risk manager, Ernst & Young
CISI Awards Ceremony 2014: winner, Regulation & Compliance

Read the full interviews on page 16 and at cisi.org/future

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25
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Top 5 modules

- Anti-Money Laundering
- Client Assets and Client Money
- Conflicts of Interest
- Integrity and Ethics
- Financial Crime

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Chartered Institute for Securities & Investment

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Chartered Institute for Securities & Investment
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The Red House Consulting

A LOOK INSIDE

In the spirit of looking ahead and embracing change, our 25th anniversary edition, with a new and refreshed look, speculates on what the future might hold and reflects on how we've got to where we are.

We ask some outstanding young professionals how they think millennials are changing the financial services sector and where they think we're headed in the next 25 years (cover feature, pp.16–18).

'A changing landscape' (pp.25–27) assesses the impact of major regulatory changes in the sector over the past 25 years and looks at what's ahead, while 'Cashing out' (pp.34–36) analyses the potential impact of a cashless world in future.

We also had the pleasure of interviewing two eminent financial services leaders for this special edition. John McFarlane, chairman of Barclays, explains why he is 'The fixer' (pp.22–24); and Donald Brydon CBE, chairman of the London Stock Exchange, shares insights from his long career (pp.28–30).

We hope you enjoy the issue. As always, please do get in touch with any comments or suggestions.

CISI Publications Executive
Jane Playdon
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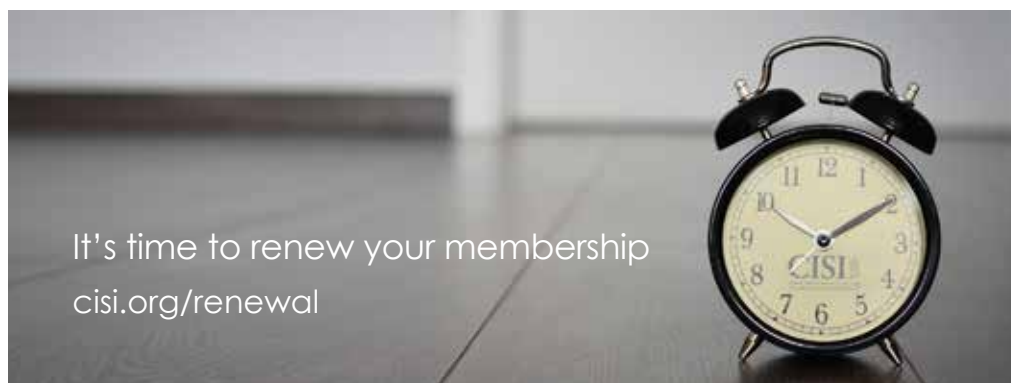


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It's time to renew your membership
cisi.org/renewal



CISI CPD is now mandatory

What does this mean for me?

From 1 April 2017, all CISI members, both existing and new (except students), working across every financial services specialism included in the various professional bodies' remit are required to undertake Continuing Professional Development.

As the leading global professional body for securities, investment, wealth and financial planning professionals, we are introducing these new CPD requirements to ensure that all our members, no matter what membership grade they have, job role they hold or jurisdiction they work in, will be unified by meeting strict annual CPD standards.

We know that most of you are already undertaking and recording CPD with us annually. Our aim is to help our members demonstrate to consumers and the industry that they are committed to the highest standards of professionalism and integrity and that these standards are in place for perpetuity. We are phasing in these new CPD requirements gradually, over a two-year period, to ensure that we are allowing all our members time to get used to these new membership changes.

We provide several resources to ensure members have all the opportunities to learn, develop, progress in their careers and meet their CPD requirements, including:

A choice of over 500 CISI CPD events globally a year for members to attend in person

Nine national advisory councils

Online training through Professional Refresher modules and IntegrityMatters

CISI TV webcasts, both live and recorded, with currently over 150 to view online

Industry news through your member magazine – The Review
Suite of ethics and integrity CPD materials

All the CISI CPD members undertake is automatically added to their CPD records, removing the administrative headache of manually adding CPD.

For more information visit cisi.org/newcpd

Existing members who join the CISI prior to 1 April 2017 need to start their CPD year no later than 31 March 2018 in order to meet the new mandatory CPD requirements deadline of 31 March 2019.

25
YEARS

CISI 

CHARTERED INSTITUTE FOR
SECURITIES & INVESTMENT

City view



My word is still my bond

Members and regular readers will need no reminding of the genesis of the Institute's motto of 'My word is my bond', and many will look back to the apparently halcyon days when that was assumed to be the motto of the City as a whole, not just the London Stock Exchange. Regrettably, the business activities undertaken by or within the City during many of those 25 years, at both a corporate and individual level, show the sentiment more often ignored than honoured.

So, how has your Institute measured up to the challenge of implementing the relevant objects of our Royal Charter, namely "to promote for the public benefit ... to develop high professional, educational and ethical standards for practitioners in securities and investments and to promote such standards in the United Kingdom and overseas"?

It is worth focusing on the words "for the public benefit" because they are a key component of the work of professional bodies. We are granted charitable status because we exist to serve the wider public, not just the membership. Achieving that aim involves all of us in committing to uphold the principles contained in our Code of Conduct and working towards ensuring that they become the standards of the wider industry.

In seeking to meet this objective, overseen by the board-level Integrity & Ethics committee, your Institute has undertaken initiatives in a variety of areas, the most central product of which, the Code of Conduct, has recently been

modified to reflect the responsibilities of our widened membership.

The Institute's long-running series of 'Grey matters' ethical dilemmas has now offered members 90 individual stories, which have been combined into a series of five *Integrity at work in financial services* books – 150,000 copies of which have been printed for distribution to members. These dilemmas have provided the seed corn for all our related material, whether it is the IntegrityMatters test or the 'Integrity at work' presentations for delivery and discussion in groups. This latter product has proved universally popular with participants around the world. It has been delivered to audiences in over 30 countries in English, French and Spanish. In addition, the presentation is offered to all our members through regular presentations to regional groups.

We are granted charitable status because we exist to serve the wider public

In 2008, we introduced the online IntegrityMatters test as an elective topic for all, apart from Chartered members for whom it was mandatory. Additionally, the test was taken by large numbers of people, both members and non-members, and in 2014 passing the test became a mandatory requirement of membership of the Institute.

In 2013, in response to the absence of any sort of ethics training requirement within the wholesale area of the financial

services industry, which was where most of the serious individual transgressions arose, we made successful completion of IntegrityMatters a prerequisite for all candidates for our Certificate in Capital Markets qualification. Because of this we have seen some 6,000 tests taken by these candidates and, to date, over 42,000 IntegrityMatters tests have been taken. In addition, through our partnership with Caixa Bank in Spain and the translation of IntegrityMatters into Spanish, a further 6,000 tests have been taken by Caixa Bank staff.

More recently, with the increased regulatory focus on speaking up and whistleblowing, a 'Speak up' presentation has been produced, with a similar format to *Integrity at work*, and this has proved popular with both members and corporate supporter firms.

Finally, in our 25th year we have taken the important step of introducing a mandatory 10% integrity content into members' new annual CPD requirement, to stress the importance that we place on the topic. To support our members to achieve this target, in addition to the products that we already provide, our new and improved *Professional Refresher* series contains an increasing number of modules that are acceptable in meeting the integrity CPD requirement.

We look forward to the next 25 years of providing innovative and instructive products to uphold the standards and values of the Institute, to enable members to say with pride and confidence: "My word is my bond." ●

CONGRATULATIONS

to our 2016 qualification award winners

The Chartered Institute for Securities & Investment (CISI), the leading professional body for the securities, investment, wealth and financial planning industry, provides globally-recognised qualifications and membership for financial services practitioners. Each year, we hold an awards ceremony to recognise the outstanding achievements of our top-scoring students. This year, we celebrated successes from the UK and globally, with winners from the Channel Islands, India, Kenya, Kuwait, Lebanon, Malta, Poland, Republic of Ireland, Russia, Singapore, Spain, and the UAE.

We congratulate all of our award winners for their outstanding exam success and below we recognise this year's award winners.

SCHOOLS, COLLEGES AND UNIVERSITIES

Certificate for Introduction to Securities & Investment

Hannah Holley
Hautlieu School

Certificate in Finance, Risk & Decision Making

Ben Mephem
Kemnal Technology College

Diploma in Finance, Risk & Investment

Vladyslav Odintsev
Kemnal Technology College

Introduction to Investment (Education)

Ryan Maguire
University of Ulster

FOUNDATION

Fundamentals of Financial Services

Fahad Alluheib

Jamie Ash

J O Hambro Capital Management

Lucie Barakova

Macauley Carter

Georgiana Copeland

Jade Correa

Katherine Dawes

Charles Stanley

Alfred Fraser

Anastasiia Khrabrykh

Brendan Maher

David Padbury

Cameron Ramsay ACSI

Mariana Capital Markets

Annie Ruddick

CISI

Alan Ryan

Pioneer Investments

Oskar Rybka

Christopher Shirley

Binary Investments

Barry Sidwell

Finsbury Associates

Benjamin Susanna

Richard Veal ACSI

Pinnacle Wealth Management

Jessica Whistlecraft

Whitefoord Wealth Management

Introduction to Securities & Investment

Lu Chen

HSBC Bank

Amy Clifford

Rathbone Investment Management

Paul Fox

Thomas Rich

Nomura Asset Management

Hannah Smithies

HSBC Bank

Jonathan Sykes

International Introduction to Securities & Investment

Ramy Accad

Ecole Supérieure des Affaires

Crystal Ibrahim

Ecole Supérieure des Affaires

Joseph Stuart Teasdale Chartered MCSI

Joseph Stuart Teasdale Chartered MCSI

Diploma in Investment Operations

Sonia Tarczalowicz

Morgan Stanley & Co

Yuliya Otvinovskaya

BCS Prime Brokerage

Yuliya Otvinovskaya

BCS Prime Brokerage

BCS Prime Brokerage

BCS Prime Brokerage

BCS Prime Brokerage

BCS Prime Brokerage

Karolina Rymysz

Credit Suisse

Fadi Simon

Ecole Supérieure des Affaires

Khushal Wadhawan

Christ University

ISLAMIC FINANCE

Fundamentals of Islamic Banking & Finance

Fatima Murtaza Nasser ACSI

Patrick O'Neill

Islamic Finance Qualification

Ribal Fattal

Ecole Supérieure des Affaires

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Ecole Supérieure des Affaires

In honour and memory of Pen Kent FCSI(Hon): Investment Operations Certificate

Rosemary Hancock

C Hoare & Co

RISK AND COMPLIANCE

Combating Financial Crime

Emma Jourdan

Eukleia Training

Global Financial Compliance

Samantha Garrett ACSI

Vistra (Jersey)

Rosemary Hancock

C Hoare & Co

Risk in Financial Services

Theodora Sietou

Euroclear UK & Ireland

Jaspal Kasbia

Accenture

Compliance Institute Award: Regulation & Compliance

Sarah Bentley

Kinetic Partners

Dena Chadderton

Bovill

Kate Taylor MCSI

Eukleia Training

Euroclear Prize in Memory of Andrew Winckler: Diploma in Investment Compliance

Tamara Lucas MCSI

Comprehensive Compliance and Gattaca

CORPORATE FINANCE/CAPITAL MARKETS

Certificate in Corporate Finance

Nessim Boucai

Citi International

Diploma in Corporate Finance

Natasha Virmani

Intelivisto Consulting India

Capital Markets Programme

John Grabowski

UBS Investment Bank

Bond & Fixed Interest Markets

Dominic Meade MCSI

Speirs & Jeffrey

Financial Derivatives

Christopher Libell

Fund Management

Ahmed Yaqoob MCSI

Lloyds Banking

Diploma

William Dartnell MCSI

Quartet Capital Partners

WEALTH MANAGEMENT

Certificate in Wealth Management (Spain) Gold Winner

Maite Zalba Garayoa ACSI

CaixaBank ("laCaixa")

Certificate in Wealth Management (Spain) Silver Winner

Virginia Bartolome Benito ACSI

CaixaBank ("laCaixa")

Lidia Naspreda Lopez ACSI

CaixaBank ("laCaixa")

International Certificate in Wealth & Investment Management

Ahmed Awad

Abu Dhabi Commercial Bank

International Certificate in Advanced Wealth Management

Dean Parkins

Swati Shanker

Investment Advice Diploma

Nikolay Chernov

J P Morgan

Private Client Investment Advice & Management

Oliver Knights MCSI

Credit Suisse

Financial Markets

Alex Waddington ACSI

Smith & Williamson

Portfolio Construction Theory

Dean Aitchison ACSI

KMD Private Wealth Management

Applied Wealth Management

Pritesh Desai, Chartered MCSI

Oakbridge Consulting

Chartered Wealth Manager Qualification

Stuart Chilvers MCSI

Brown Shipley



BACK STORY

*Stuart Chilvers MCSI,
Client associate, Brown Shipley*

In March 2017, Stuart Chilvers scooped the award for achieving the highest mark in the CISI's highest-level qualification, the

Chartered Wealth Manager qualification (level 7). "It was nice just to have finished the exams but then to get the award was a pleasant surprise," says Stuart, 25.

Stuart joined wealth managers Brown Shipley after graduating from the University of Bath with a degree in mathematics. Originally from Colchester in Essex, joining the London-based bank brought him closer to home. It was his first 'proper job'. His only previous industry experience was in the finance department of Mercedes AMG high performance powertrains, where he spent a 12-month industrial placement as part of his degree course.

"It was a wonderful company to work for but I never thought accountancy would be particularly up my street and that just reaffirmed it," says Stuart. "I've always had more of an interest in the investment side of things, which has a natural linkage with my mathematics background."

Stuart's current role at Brown Shipley can vary from having a large say in the management of client investments and the running of portfolios to contributing to group decisions, accompanying client directors on client meetings and following up on actions required.

To develop within the firm, Stuart needed to successfully complete the Investment Advice Diploma soon after joining. He then completed the Chartered Wealth Manager qualification. He has quickly moved up the membership ranks from student membership to ACSI and now MCSI.

"Being a member of the Institute has been a positive experience," he says. "The knowledge you get from

completing those exams is really valuable and as they are known across the industry, everyone knows the standard that you're at."

Winning the CISI award is Stuart's proudest career achievement to date. But he is also proud of an achievement outside the office – a 300-mile charity bike ride from London to Paris, which he completed with around 25 of his Brown Shipley colleagues to raise more than £50,000 (with gift aid) for three local hospices in Birmingham, Manchester and London, where the firm has offices.

"Physically, it's not the hardest cycle ride, but to be involved with something where you're raising quite a significant amount of money for charity is always something to feel proud of," he says.



“It was nice just to have finished the exams but to get the award was a pleasant surprise”

Within the next 12 months, Stuart has ambitions to progress to client manager level or change track to become an analyst or fund manager. "I've built up some portfolio management experience but I don't have a huge amount of experience on the research and asset management side of the business, so that's something I'm going to try to include more in my role going forward," he says.

Chris Scott, Chartered FCSI: 1952–2017



Chris, a former board member of the CISI, has died at the age of 64. He was an enthusiastic and conscientious CISI member, always keen to help younger colleagues develop their careers through the kind of active and positive engagement with the Institute that was his hallmark.

Chris joined the CISI Jersey branch committee in 2001 and was its president from 2002 until 2006. He served on the

CISI board from 2004 to 2010, and was on the international, investment, and membership committees until he passed away.

He was universally admired and liked by Institute members and staff, from the newest recruits to the longest-standing board members. Chris spent 46 years working in the financial services sector, beginning as an accountant in the 1970s. He subsequently worked for HSBC,

Royal Bank of Canada, and Royal Bank of Scotland, including a two-year stint in Hong Kong from 1988 to 1990. Most recently, he worked for Jersey-based Quilter Cheviot since 2010.

Chris was a devoted family man and was married to Veronica for 35 years. We would like to extend our sincere condolences to Veronica, the couple's sons Nick and Antony and the rest of the Scott family.



The Review's quick quiz features questions from *CISI Professional Refresher*, an online learning tool. This popular product consists of more than 90 modules covering topics including anti-money laundering, the UK Bribery Act, information security and data protection. The answers are on page 11.

1. As it celebrates its 25th anniversary, the CISI currently has around 40,000 members. In 1992, it initially had only 4,800 members who were 'grandfathered' from which organisation?

- A The FSA
- B The London Stock Exchange
- C The Bank of England
- D The Panel on Takeovers and Mergers

2. Savings and the bonus from a lifetime ISA can be used towards a deposit on a first home worth up to:

- A £250,000
- B £350,000
- C £450,000
- D £500,000

3. Which of the following organisations does not set obligatory standards for continuing professional development?

- A The FCA, in regard to retail investment advisers
- B A professional body, in respect of its members
- C A firm, in respect of its employees
- D An accredited body, in respect of all employees in a firm

4. What is the Wolfsberg Group?

- A A UK industry body which issues legally binding requirements relating to anti-money laundering
- B An association of global anti-money laundering regulators
- C A forum for co-operation among international financial intelligence units
- D An association of global banks

Access to *Professional Refresher* is available on an annual licence basis. The full suite of modules is free to CISI members or £250 for non-members. If you or your firm would like to find out more about *Professional Refresher*, visit cisi.org/refresher or contact the CISI on +44 20 7645 0777.

Events preview

The CISI offers plenty of opportunities to help you meet your requirements for professional development. Below are just some of the highlights of the Institute's events programme, but for comprehensive details and to book, please visit cisi.org and click on the 'Networking & events' section.

CONFERENCES

13-14 JUNE

PARAPLANNER CONFERENCE

Jury's Inn, Hinckley Island, Hinckley, Leicestershire

The event will provide the paraplanning community with relevant knowledge and tools to tackle present and future challenges. It will include keynote addresses, technical and personal development sessions delivered by a range of expert speakers.

25-27 SEPTEMBER

FINANCIAL PLANNING ANNUAL CONFERENCE

Celtic Manor, Newport, Wales

The CISI will be hosting its annual conference, which will focus on best practices and new developments in financial planning, wealth and investment management. Attendees will earn over 13 hours of CPD.

CPD WORKSHOPS

24 MAY Retirement planning (London)

22 JUNE 6 steps of financial planning (London)

ANNUAL DINNERS

4 MAY Liverpool, Chester & North Wales branch dinner

11 MAY East Midlands & Lincoln branch dinner

15 JUNE Birmingham & West Midlands branch dinner

23 JUNE Isle of Man branch dinner

OTHER HIGHLIGHTS INCLUDE

10 MAY Vulnerable clients – concerns and considerations for practitioners (Surrey)

17 MAY Bank of England update (Newcastle)

18 MAY MiFID II – impacts for advisers (Liverpool)

22 JUNE Impact of recent changes to the pensions planning landscape (Edinburgh and Glasgow)

28 JUNE Bitcoin/crypto currencies (Birmingham)

13 JULY Brexit: 12 months on (Liverpool, Chester & North Wales)

IN-HOUSE TRAINING

The CISI delivers in-house training courses for members and non-members, spanning a variety of skill areas. If you have a team that requires training, please contact Alex Xavier (assistant director, member services) on +44 20 7645 0725 or alex.xavier@cisi.org

- If you have an idea for an event or would like to contribute at one of our events, please email cpdevents@cisi.org
- For details of conferences, training courses, CPD and social events available to members, visit cisi.org/events

ASK THE EXPERTS: MIFID II AND THE COST OF RESEARCH FOR ASSET MANAGERS

How is MiFID II likely to change the way investment research is paid for?

There are three options. One is for discretionary portfolio managers to pay for the research out of their own profit and loss account. The other two use client money. First, the ‘Swedish model’, where an asset manager agrees a specific research charge with each of their clients, which then accrues daily. The charge is withdrawn from each fund and fed into the research payment account (RPA), which pays third-party research providers. The final option is to use an RPA funded by commission sharing agreements.

How important is investment research to discretionary portfolio managers’ ability to do their job effectively?

If there were no external research, asset managers would have to provide coverage of around 20,000 global stocks internally even though they may only own 500 stocks at one time. The cost for each asset manager would be huge.

However, some asset managers have already said they are going to use their own P&L to fund research, while others are looking at using different types of external research. No one is suggesting they will stop using it as it is an important investment function.

What compliance requirements are there under MiFID II if you use client money to buy research?

These payments need to be made from an RPA account, controlled by the asset manager. There may also be some custodial-type arrangements. If you use client money, you will need to have a research budget decided in advance, presented to and approved by asset owners. This budget must pertain to the actual investment product that an asset owner owns, so there is no cross-subsidisation.

This applies to all asset classes. These are significant changes. Timeframes are narrowing for MiFID II – it starts

on 3 January 2018. Managers will be required to restructure the way they procure, value and pay for research.

How will the research funding decision affect asset manager profitability and competitive positioning?

A very real outcome for an asset manager is the asset owner rejecting the research. If that were to happen, the profitability of those active equity strategies could fall 30%–60%, with the asset manager being left to pay for the research themselves. It’s not just a regulatory matter. Senior management needs to be involved, otherwise choices made for the convenience of compliance could end up determining the strategic direction of the firm.

How can managers that want to use client money to fund research maximise the probability of asset owners accepting their proposed research budgets?

The key thing is to demonstrate that the research budget directly supports the investment objectives of the product that the asset owner owns. The way asset managers communicate with asset owners will change. They will now have to say: “This is an emerging markets product with a targeted return of 1,000 basis points and the external research proponent will be 12 basis points.”

How will MiFID II measures affect the ability of discretionary portfolio managers to do their job?

They will need to provide much more detail around what research they need, why they need it and to value the research and justify it to asset owners. Historically, managers have not been required to do this.

Where does the debate currently stand?

As MiFID II is a directive, not a regulation, it allows national regulators to interpret the rules. The UK’s FCA has already published a 600-page implementation guide, and issued more guidance on 3 March. All European

countries must issue their rules for local context by July. Asset managers have gone from debating this to figuring out how to implement it. It has huge implications globally, too. The majority of global firms are going to have to run what looks like MiFID rules globally because they have to treat clients equally and running multiple systems will be administratively very complex.

“These are significant changes and timeframes are narrowing for MiFID II”

MiFID II is transforming transparency expectations of European asset owners as well. Many allocate capital globally so they are not going to care whether the asset manager is in Bangalore, Boston or Beijing – they will get used to a certain level of transparency and will demand this of all managers regardless of what the local regulator requires.

What does it mean for the CISI’s fund management members?

They will have to review their research procurement processes and understand whether they are consistent with MiFID II requirements. From my conversations with the FCA, there will be no grace period after 3 January 2018. If you haven’t figured this out, you’d better pretty soon. These initial client research budgets, which are critically important, are coming out some time in the second half of this year. It means firms should have established research valuation methodologies in place by the end of Q2, which is not long from now.



Neil Scarth is a principal of Frost Consulting, which works with asset managers and owners on research valuation and procurement issues. Frost helps managers generate research budgets that reflect their investment processes and align with client return objectives.



Financial planning news

A snapshot of financial planning news and events, from Jacqueline Lockie CFP™ Chartered FCSI



GET INVOLVED IN FINANCIAL PLANNING WEEK 2017

If you want to help with this year's Financial Planning Week, taking place 8–12 May, now is the time to make arrangements. The week is a concentrated effort to raise awareness of financial planning to the public. We have lots planned, including radio interviews, news articles, real life case studies, and free surgeries for the public where planners can help you understand

how to plan better or seek advice. All our financial planning corporate members are also doing their bit, raising consumer awareness about seeking the right advice. Many planners have told us that they ended Financial Planning Week last year with two or three new multi-millionaire clients. So you are missing out! Please go to cisi.org/fpw2017 to find out how you can get involved.

Complete your CPD online

If you are struggling to attend branch meetings and complete your continuing professional development (CPD) requirements, then log on to *Professional Refresher* or CISI TV where you will find over 100 sets of information and accompanying tests to increase your CPD hours. CISI TV also has ethics debates and lots of other great filmed sessions. We are looking to film more meetings and events specifically for financial planners and will let you know when they become available.

UPCOMING CONFERENCES

PARAPLANNER CONFERENCE

13-14 June 2017 at Jurys Inn Hinckley Island, Hinckley, Leicestershire

ANNUAL CONFERENCE

25-27 September 2017 at Celtic Manor, Newport, South Wales

The programmes for both conferences are out now so visit our website to view the programme and book. Go to the Networking & events tab, and then select Conferences.

DATES SET FOR REGIONAL BRANCH MEETINGS



For branches outside London, all dates are now set for three to six months in advance for the investment, behavioural finance

and financial planning meetings. Log in to MyCISI, scroll down and you will see events in your region on the right, with a link to view your committee members on the left. If you want to view events in other regions, click on the icon (pictured) at the top right hand corner of the screen to see a list of all the regions.

Those of you who attended last year's annual conference will remember our call for increased involvement in branch meetings and branch committees. Many of you have taken this on board and are regularly attending meetings and helping with suggestions for future content. Meetings are shaped by you, for you, so if what you are looking for isn't there, then get involved and put forward your ideas. We need more volunteers for the regional committees so, again, please get in touch if you'd like to put something back and help. Thanks to all the planners who have recently joined and come forward with ideas and suggestions for topics and speakers, both for branch meetings and for our conferences.

For those of you in London, you may have noticed that there appears to be no London branch, but there is! It is the IFP Forum Committee (a quirk of the CISI structure, that's all). Log in to MyCISI and click on the Events tab, then click on Professional Forums to go to the page listing all the Forums. Click on IFP, which will take you to the IFP Forum page with all the events listed under the IFP Forum news. So, get searching and go along to more meetings.

CASH CAN STILL BE KING IN A LOW INTEREST RATE ENVIRONMENT



It is a common misconception that the current low interest rate environment has made cash deposits relatively unattractive to investors. Yet cash is proving to be highly resilient: it is still widely regarded as the solid base which underpins a successful investment structure.

The typical balanced portfolio comprises shares, corporate bonds and some property. Cash tends to be a liquid medium for holding in the short- to medium-term to use in emergencies or to enable the client to seize investment opportunities at short notice. As such, cash can sometimes represent a smaller proportion of a typical portfolio than other asset types.

However, given that investors' desire not to lose money can be greater than their desire for gain, the additional protection that cash deposits offer should result in financial advisers giving them serious consideration in the context of their clients' wider investment portfolios and their exposure to risk.

NS&I has itself been popular with advisers for this very reason. Its unrivalled level of protection for customers, through its 100% HM Treasury guarantee on all deposits, gives advisers and their clients real peace of mind.

It is also now improving its proposition for advisers, first by recently launching an enhanced version of its adviser website The Adviser Centre (*nsandi-adviser.com*). A second phase of development, happening later this year, will include online access for advisers to information about their clients' NS&I holdings. Longer-term, NS&I hopes to add its products to platforms.

NS&I is also enhancing its engagement with advisers via social media, with more news available via Twitter (*@nsandi*), and a new LinkedIn discussion group – The Adviser Exchange – from NS&I.

www.nsandi.com

+44 8085 007 007

CISI CORPORATE MEMBERS Q2 2017

Gold Members

Royal London
www.adviser.royallondon.com

Corporate Members

Aegon
www.aegon.co.uk

AIC
www.theaic.co.uk

Aviva
www.aviva.co.uk

Dimensional Fund Advisors
www.dfauk.com

First Trust Global Portfolios
www.ftglobalportfolios.com

Just
www.justadviser.com

NS&I
www.nsandi.com

Parmenion
www.parmenion.co.uk

Partnership
www.partnership.co.uk

Prestwood Software
www.prestwood-group.co.uk

Schroders Investment Management
www.schroders.co.uk/adviser

Standard Life
www.standardlife.co.uk

Transact
www.transact-online.co.uk

Vanguard
www.vanguard.co.uk

WE ARE JUST.

Just is the exciting new brand for Partnership and Just Retirement. It represents the specialist knowledge and expertise both of award-winning businesses, and the passion, purpose and vision of our new, stronger organisation.

Just is honest and moral with a strong social purpose; a beacon within financial services. We believe everyone deserves a fair, secure and fulfilling retirement, and that financial services professionals are best placed to help people with the choices they need to make to achieve this.

Conversations about retirement are very different from what they used to be. That's because retirement is changing. It's no longer just about the choices people make 'at retirement' that matter, but the variety

of important decisions they must make throughout later life – which for many could last longer than 30 years.

At Just we're not only ready for these conversations but leading them. We'd like to have a new conversation with you. We're rethinking retirement to help you help your clients manage the complexities of later life.

As a retirement specialist, you can depend on Just to support you with best-in-class foundations:

- competitive underwritten Guaranteed Income for Life, Care, Lifetime Mortgage and Protection products, supported by a reputation for excellent service
- propositions designed to help you recognise and advise effectively on the

breadth of commercial opportunities that exist to help current and new clients achieve the right retirement solutions

- relevant and insightful content and tools that effectively bring the retirement journey to life
- resources and support to help ensure both client needs and firms are protected through industry and regulatory change on helping an ageing population.

Let's have a new conversation about planning for retirement:

Vale House, Roebuck Close,
Bancroft Road, Reigate, Surrey RH2 7RU.

support@wearejust.co.uk

justadviser.com +44 345 302 2287

After two-and-a-half decades of exciting – and often tumultuous – change, the UK’s financial services sector is a great deal more professional. In the first of a two-part piece reflecting on this evolution, Anthony Hilton sets the macro scene while Simon Culhane, Sir Alan Yarrow, Scott Dobbie and Graham Ross Russell consider the CISI’s own development

A PROFESSION EVOLVES



ANTHONY HILTON
FCSI (Hon)

A lot has changed in 25 years. Describing the London financial scene back in the 1980s, in the years just before the establishment of the

Securities Institute, an American journalist wrote – with perhaps a touch too much flamboyance – that “the sound of the City was the sound of a thousand backs being scratched”. This world vanished with the globalisation of the financial markets. The inward looking, cosy London culture was swamped and, too small to swim alone in the international seas, the cottage industries came together under one roof to form the investment banks which dominate today.

It was only then that bankers, brokers and market makers realised how different they were – in business culture, in motivation and in background. Many were of an age that still believed that an enlightened amateur could turn his hand to anything and they were therefore shocked to discover that a brilliant banker made a lousy broker and an even worse trader. They were derailed further by having to manage the conflicts of interest of acting as agent and principal. The result, inevitably, was a shambles of mistakes, chaos, horrendous losses and occasional bad behaviour.

You could host the Olympics every two years with what we now spend on regulation

This brought into focus three new things which have shaped the City ever since: culture, conflicts of interest and complexity. It created a need for a fourth unknown discipline: compliance. But the City also had to learn that regulation was a highly inefficient and ineffective way of raising standards. True professionalism comes from people wanting to better themselves and from firms wanting to employ only the best.

The real story of the past 25 years is that such professionalism is now almost taken for granted across the securities sector. Today, it would be almost inconceivable to have people in responsible roles – client facing or otherwise – who do not hold some professional qualification and commit regularly to various forms of continuing professional development. The firms want it, the clients want it and the regulator demands it, but it really is a major change.

The second shift is in the growth of competition between international jurisdictions and the role of standards and integrity in enhancing the attractiveness of one financial centre over another. In a world where financial products and financial techniques are quickly commoditised, it is the people who make the difference. Again, this was much less overt and apparent a generation ago, but today the export of London values and the appeal of London qualifications, as supplied by the CISI and by Britain’s other professional bodies operating in other financial disciplines, has developed into a huge invisible asset, underpinning the City of London’s soft power across the world.

A BRAVE NEW WORLD

Coming to terms with this new world is a full-time and never-ending job. There has been a massive upgrading of training and standards of professionalism. Statutory regulators have had to go through several iterations. Each has carried a bigger stick than the last but the search for the right balance between creativity and control remains elusive. The compliance function has followed a similar path. A generation ago nothing was spent on regulation. You could host the Olympics every two years with what the financial services sector now spends.

But the real lesson of recent times is the understanding that if the financial world loses its reputation for probity and integrity, and its basis of trust in society, then life becomes very difficult indeed. The City today understands this in a way that it did not a quarter century ago.



SIMON CULHANE
Chartered FCSI
CEO, CISI

On the 25th anniversary of the formation of what was then the Securities Institute, it is worth looking back at the Prospectus under which the Institute was launched in February 1992, to consider whether and to what extent the CISI may be considered to have met the original objectives. As importantly, has the CISI kept pace with changes in the industry and the expectations of the public?

One of the points made in the Prospectus was that while others, particularly APCIMS, now the Wealth Management Association, had assumed the trade association function of the Stock Exchange, there had been no successor to act as a professional body for individual practitioners. The Securities Institute was launched to fill that need. It was intended to cover all securities activities: investment management, corporate finance and the derivatives markets, as well as support operations, compliance and regulatory matters. It was to concern itself particularly with the maintenance of the highest standards of integrity and business ethics throughout the industry, and with the improvement of standards of professional competence through its work in the areas of training and qualifications. So, after 25 years, is the CISI meeting its objectives?

SUCCESSFUL EXPANSION

At the macro level the answer must be a resounding yes. The CISI now has over 40,000 members, including some 20,000 students, in over 116 countries around world. We have offices in Dubai, India, Singapore and the Philippines, as well as a thriving administration office in Sri Lanka. Last year we hosted almost 40,000 examination candidates in over 80 countries, with the majority sitting computer based examinations, while continuing to offer gold standard narrative exams for wealth managers – and now also for financial planners.

On the industry front, one of our initial backers, the Securities and Futures Authority, saw its responsibilities absorbed into the newly established Financial Services Authority. This ushered in a new era of regulation and examination requirements. Changes in those requirements, resulting from the broader focus of the new regulator, together with the need to have our examinations accepted as meeting recognised national educational criteria, saw the Institute withdraw from the provision of examination training, as conflicting with our status as an ‘awarding body’.

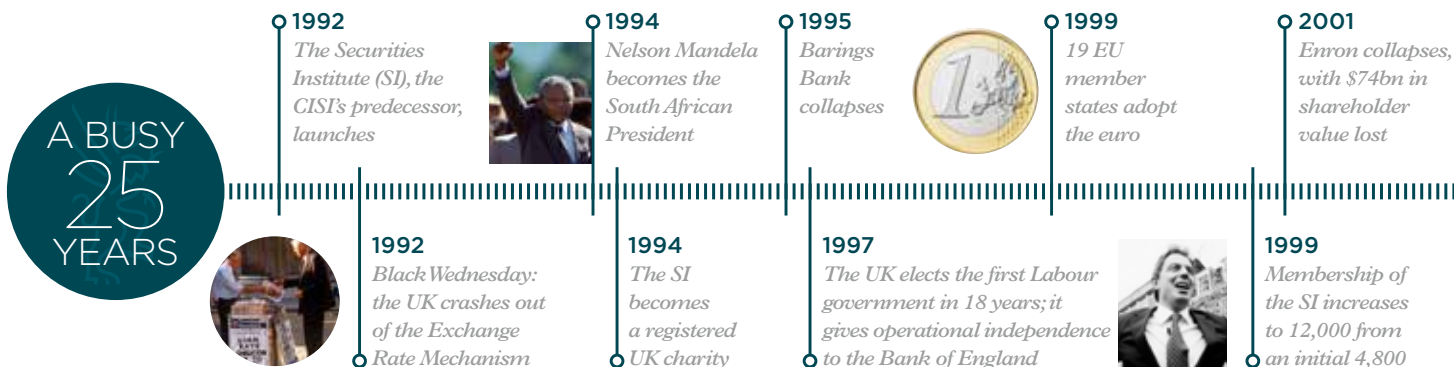
One of the earliest areas which saw us combine forces with another body was in the discipline of corporate finance (CF), where we formed a partnership with the Institute of Chartered Accountants in England and Wales to produce the professional level Corporate Finance Qualification and accompanying CF designation. We also were leaders in recognising the growing importance of Islamic finance and, with Lebanese help from the École Supérieure des Affaires, we launched the Islamic Finance Qualification.

THE IMPACT OF THE GFC

Any discussion of the past 25 years cannot fail to mention the global financial crisis (GFC). For the CISI, the most immediate impact was felt in the qualifications area, where a sudden and prolonged hiring freeze meant that the annual surge of graduate recruits into the investment banking field became a trickle and firms became less willing to pay membership fees for their staff as a matter of course.

The CISI now has over 40,000 members, including 20,000 students, in 116 countries

What accompanied the GFC was a renewed focus on culture, ethics and an explosion in compliance. Although ethics was central to the establishment and purpose of the Institute, its place in people’s minds had tended to become secondary to the aim of making money. However, by late 2004 it was felt that this aspect



of the Institute’s mission needed to be more widely broadcast and the Ethics & Integrity Committee was relaunched to bring greater focus to the Institute’s message. Little did anyone suspect what was coming, but when disaster struck in 2008, the CISI had become established as a source of advice and expertise to promote values, culture, ethical behaviour and professionalism in the industry.

Promotion of professionalism remains central to the mission of the CISI, but the expectations of the public in this regard remain unfulfilled so far as wholesale financial markets are concerned. Despite the work of the Parliamentary Commission on Banking Standards, which led to the establishment of the Lambert Review and subsequently the Banking Standards Board, and repeated recommendations by the CISI that the same expectations and requirements for demonstrable standards of professionalism should be mandated for operators in wholesale markets, as required in retail markets, neither the regulator nor Parliament has been prepared to take that step.

The CISI has become a source of advice and expertise to promote ethical behaviour

CHALLENGES AHEAD

In terms of the challenges ahead, not only is it a question of doing what we do, only better, but to keep looking ahead to anticipate changes in financial services sector practice and public expectation of a professional body. In this regard, the establishment of the Banking Standards Board represents both a challenge and an opportunity for the Institute to participate in the direction of policy and the establishment of best practice based on experience of what has worked over the past 25 years and our aims for the next 25. The recent launch of the Chartered Body Alliance, in partnership with the Chartered Insurance Institute and the Chartered Banker Institute, represents the first step on that road.



SIR ALAN YARROW
Chartered FCSI(Hon)
Chairman, CISI (2009 – present)

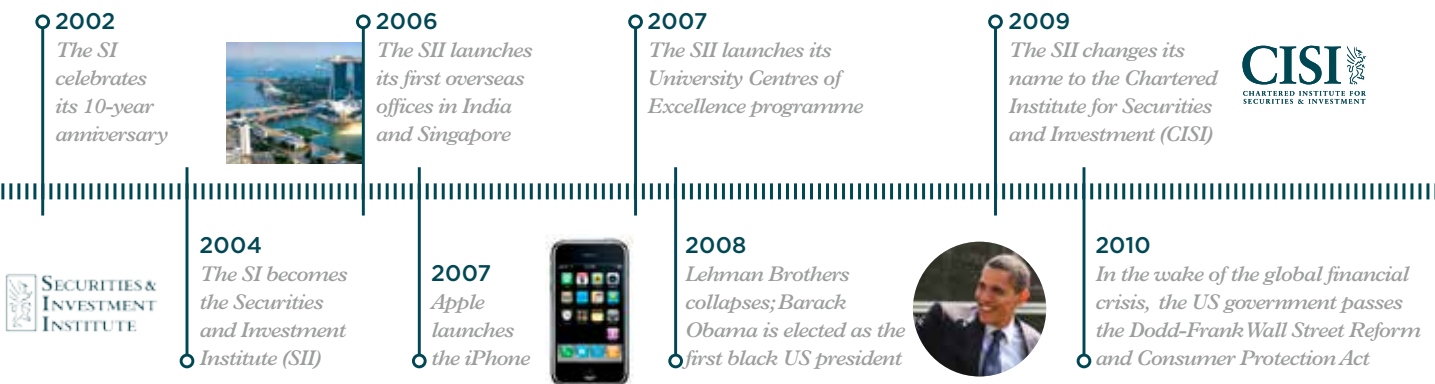
In 2009, I was honoured to be asked to be chairman of the Institute, an organisation whose principles I have always believed are critical to rebuilding and maintaining respect for our industry.

I travelled to many countries during my year as Lord Mayor of the City of London (2014–2015) and was always very proud to say that I was also chairman of the CISI. The Institute has a fast-growing international portfolio and is respected for its integrity and as a leading accreditation body in over 40 countries.

I believe the Institute adds real value to the commercial lives of its members, which in turn benefits their clients. This is possible only with the right people working here, committed to professionalism and efficiency. Equally, the Institute couldn’t function without those many members who give their time and experience for the benefit of others. You can’t teach experience, but you can share it, and we believe in providing the right tools to help others to make the right choices.

The Institute adds real value to the commercial lives of its members

One thing we will all have experienced over the past 25 years is the ever-changing and advancing technology. The Institute strives constantly to review and revise not only what, but also how, we can keep our membership up to date and relevant. Despite these changes, the fundamental foundations of this institution will always remain the same: professionalism, knowledge, skills and behaviour. A good recipe for success in the past 25 years, which I cannot see changing in the next 25.





SCOTT DOBBIE
CBE FCSI(Hon)
Former chairman, CISI

Although I had been a member of the Securities Institute, as it was then, since the time of its formation, I had not been involved in its management or direction until appointed chairman early in 2000. Under Graham Ross Russell's leadership the organisation had quickly established a strong reputation for the quality of its professional education and its work in promoting trust and integrity within the securities business. This strong business and reputational base laid a foundation from which the organisation continued to develop strongly, and by 2009, at the end of my time in the chair, had achieved Chartered status. Since then, progress has continued both physically, in scale and geographical reach, and in stature, as shown by its participation in the recent launch of the Chartered Body Alliance.

All involved should be proud of what has been achieved in 25 years

To my mind the Institute has thus succeeded in all its specific objectives, but its most significant achievement has been to combine all the specific member services to provide a pathway to achieve professional standing in the field of financial services, something that was not possible 25 years ago. Professional status is principally about two things: knowledge and behaviour. The range of training courses and examinations has increased to help members meet the higher standards of customer advice and service, which the market and regulators now expect. A Code of Conduct has been developed, backed by appropriate training and examination. Chartered status, backed by ongoing CPD, gives external stature and credibility to member and Institute alike. All involved should be proud of what has been achieved in 25 years.



GRAHAM ROSS RUSSELL
FCSI(Hon)
Founding chairman, CISI

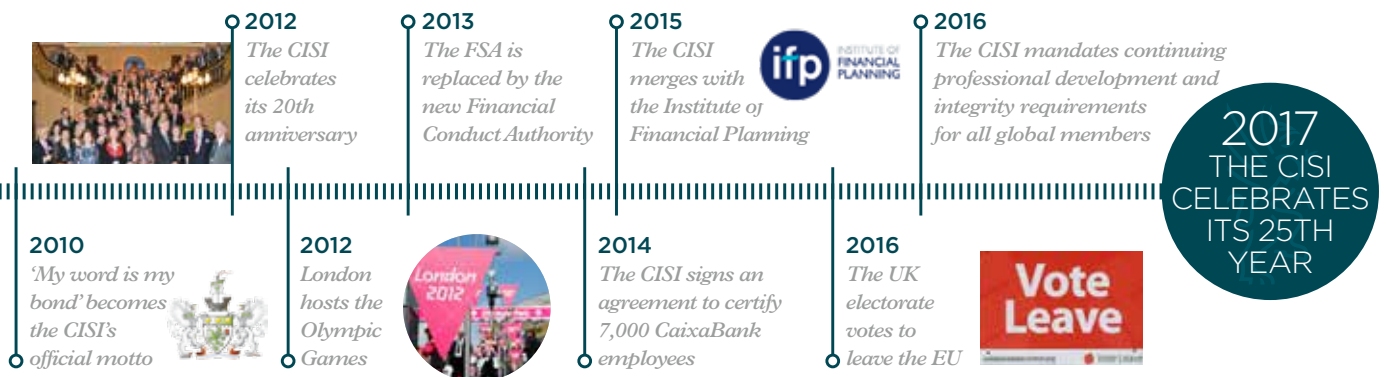
The Institute was founded in the wake of Big Bang, which had brought wholesale change to the City: a significant increase in numbers employed; a broadening of the client base and products; increased complexity of instruments; and the dawn of 'fintech'. Most firms had transformed, often overnight, from partnerships into subsidiaries of major institutions, many of them with overseas headquarters and most of them at a much bigger scale than their predecessors.

Our mission was to build an organisation with real and lasting influence on standards

I had been deputy chairman of the Stock Exchange, and was honoured to be one of three former council members given the task of setting up the Institute. Our mission was to build a professional organisation that would have real and lasting influence on standards of integrity and professional competence among individual practitioners.

The statistics support the impressive progress that has been made in achieving these original goals. Membership has grown from 4,800 to 40,000; the number of exams taken has increased more than tenfold and continuing professional development is now widely accepted and practised. The early groundwork to expand the work of the Institute to overseas markets has grown impressively and CISI exams are now sat in more than 80 countries.

Measuring growth in standards of integrity is more difficult, but it is clear that the importance that the CISI gives to the maintenance of high standards of integrity continues to be a major influence on City standards in general. This is an area where the influence of the CISI will continue to be of vital importance. ●



FUTURE IMPACT

How will millennials shape the financial services sector? We ask a selection of outstanding young professionals what they think

◆ JANE PLAYDON & CHRISTOPHER PARSONS
📷 ALUN CALENDER

Millennials are bringing new energy to the financial services professions, driving innovations and reinventing perceptions of the sector. Our 25th anniversary edition cover feature draws together a selection of young professionals who have performed outstandingly well in their chosen area of financial services, drawn mostly from CISI award winners over the past five years, for a snapshot of perspectives on how they are achieving this and what impact this generational shift is likely to have in the future.

Between them they cover a wide range of financial services, including wealth management, financial planning, banking, regulation and compliance, and operations. They generally agree that advances in technology will transform the way we work in future, and many point to a change in attitudes towards work, with an improved shift in work/life balance heralded as something to look forward to. But some predictions are more left field, including an optimistic prediction that poverty will be a thing of the past, global temperatures will have stabilised, and our favourite: the CISI will be handing out awards to robots.

Space constraints mean that we cannot feature everyone within these four pages, but the unabridged interviews are all online at cisi.org/future. Where do you think we'll be in 25 years' time? Let us know in the comments.



STEPHEN LENNON, Chartered FCSI, 35
REGIONAL SALES MANAGER,
PARMENION CAPITAL PARTNERS

**CISI AWARDS CEREMONY 2014: winner, Applied
Wealth Management**

Steve learned to “look under the bonnet” of funds at an early stage of his working life, as part of a team handling calls related to a fund that had famously and drastically underperformed “because it had huge overweight to high-momentum technology stocks”.

This sparked a fascination for investing and financial markets, to the point where today he is “slightly obsessed with market movements”, checking them immediately after waking.

He is most proud of the de-accumulation investment solution that he helped develop at Parmenion. “As far as I am aware,” he says, “it is the first de-accumulation investment solution in the UK to offer ten distinct risk grades and asset allocations specifically designed to

mitigate the stresses that long-term withdrawals place on a portfolio.”

Looking ahead, he hopes that the financial services industry “can shake off the stigma” resulting from the global financial crisis.

“Having to explain that my role

is a million miles away from structuring and selling collateralised debt obligations is hard sometimes, but I hope that will gradually change,” he says.

“I think that the ability to deliver intuitive and engaging tools will define a company’s success going forward.”

IN 2042 I PREDICT

I will turn 60 and hopefully retire. Driverless cars will be commonplace and the combustion engine will be frowned upon. Drones will fill the skies but global temperatures will have stabilised and I’ll be hoping that my son will settle down one day!

“ I am very proud of the de-accumulation investment solution which I developed ”

JENNIFER O'NEILL, Chartered MCSI, 28
INVESTMENT MANAGER, QUILTER CHEVIOT

CISI AWARDS CEREMONY 2015: winner, UK Regulation & Professional Integrity

Jennifer, who once had her name displayed on the ticker tape in Times Square to recognise her role in a wealth management project, is fascinated by the “relationship between investment markets, geopolitics and economics”.

Her role in portfolio construction takes into account “macro factors overlaid with fundamental analysis”. She facilitates this by arriving at the office before the markets open to catch up on data from Asia and the US, and combines this with “external sell-side research on macro events and company results”.

Looking ahead, she says: “We live in an incredibly global

world, and I feel this will play a significant role in the way financial services develop. The adoption and innovation of technology will play a massive role, and millennials will lead the charge in this.

I also think the industry will become more open as competition increases (look at where we are now relative to where we were at the time of the deregulatory Big Bang in 1986), so relative advantages will be more difficult to maintain.”

IN 2042 | PREDICT

Targeted advertising will be delivered based on data analytics so sophisticated it will be tailored to an individual in ways we can't currently envisage.



“ Millennials will lead the charge in adoption and innovation of technology ”

“ There will be a huge shift in the mix of allocations between capital and labour ”



AHMED YAQOOB MCSI, 23
FX TRADER, LLOYDS BANKING GROUP

CISI AWARDS CEREMONY 2017: winner, Fund Management

Ahmed spends his days “immersed in the markets – knowing where foreign exchange rates are at, what is driving them, actively managing risk and facilitating client flow by helping them to access the market for transactions”.

He keeps abreast of market activity and movements in price of a range of assets, global political developments, client transaction activity and data releases. “My job is to put these moving parts together to form a view on the markets,” he says, and he hopes to build on his “understanding of how other markets work and eventually become a generalist across a range of asset classes”.

Looking ahead, he says: “As technological advances converge across the finance industry, I think millennials will spearhead an approach which changes the dynamic of conversations with clients. “Already, we have seen a shifting of priorities away from ownership towards access – like working remotely, sharing cars and streaming music.”

IN 2042 | PREDICT

There will be a focus on reducing human input into tasks to prevent things going wrong. This will lead to a huge shift in the mix of allocations between capital and labour. I also predict that the CISI will start handing out Top Young Finance Professional awards for robots! ➔



FARIDA HASSANALI, CFP™ Chartered MCSI, 30
PARAPLANNER, UBS WEALTH MANAGEMENT

**Head of Paraplanner Interest Group and member
of IFP Professional Forum Committee**

“ We will be studying 2016 as a significant period in history ”

Having decided that she wanted to join the financial planning profession at the age of 12, Farida is now an established

paraplanner and has achieved the top financial planning qualifications. She transferred membership to the CISI following the November 2015 merger with the IFP and quickly took on responsible roles within the CISI.

She arrives early at the office to plan her priorities and divides her days between writing recommendation letters, attending

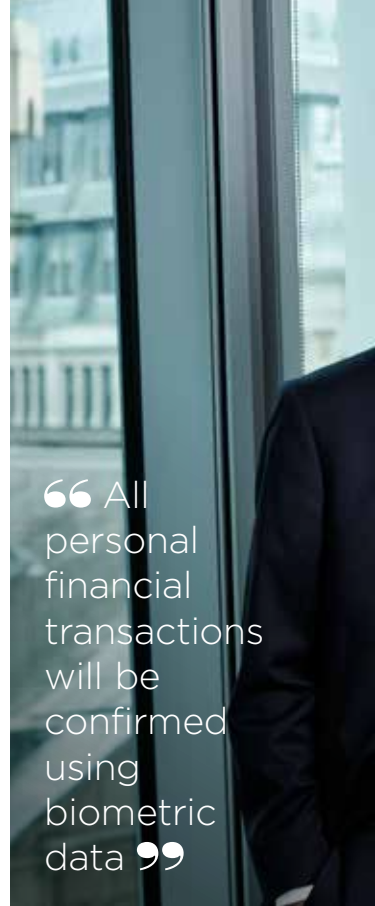
client meetings and participating in several projects. Her ideal role would allow her to increase time spent with clients.

Looking ahead, she thinks that millennials will continue to drive digital innovation and further reduce the barriers to globalisation as ‘going to the office’ ceases to be a requirement.

While the complaint cases against financial services in recent years are unfortunate, Farida points to the introduction of the Pension Advice Allowance as a positive step that “recognises the need for advice and provides people with greater access to it”.

IN 2042 | PREDICT

We will be studying 2016 as a significant period in history!



“ All personal financial transactions will be confirmed using biometric data ”

SAMUEL CHUNG ACSI, 26
ASSISTANT VICE PRESIDENT, CITI PRIVATE BANK

CISI AWARDS CEREMONY 2015: winner, Investment Advice Diploma

Samuel’s greatest career achievement to date is “closing a private placement deal for a client and, in doing so, setting a precedence for a new product program for the bank”.

He aspires to become the “first port of call” as a trusted adviser for his clients. “Ultimately, banking as a services industry is all about relationships – with clients and with shareholders. Trust is something that is built over long periods of time, yet can be destroyed overnight. The financial services industry has taken a beating following the global financial crisis but perception is definitely on the rise.”

His workdays begin at breakfast when he catches up on headlines and

overnight market developments, followed by further updates at the office. He then divides his time between advising clients, research, identifying new prospects and formulating strategies with business partners.

Looking ahead, he says: “Millennials will be responsible for driving innovation in the financial services sector. They will have a different perspective on how things can and should be done and will identify the next big growth opportunities.”

IN 2042 | PREDICT

We will have gone through the next industrial revolution, data will be the new ‘natural’ resource and poverty will be a thing of the past.



“ Data will be the new ‘natural’ resource ”



TOBY GRAINGER ACSI, 31
DIRECTOR OF COST MANAGEMENT
AND ANALYTICS, UBS AG

CISI AWARDS CEREMONY 2015: winner, Advanced Operational Risk

Toby joined UBS AG following successful completion of an internship in New York. He aspires to become a “chief operating officer in one of UBS’s control or logistical departments”.

He is most proud of a project he managed last year to introduce a new internal global billing system that “enables us to perform service-based billing to our client businesses across all locations and is an important step in being able to move significant parts of our control and support departments into a service company to meet regulatory requirements in Switzerland, the US and the UK”.

Looking ahead, he says the disruption caused by fintech start-ups “could be good for the industry and one of the main advances could be the use of blockchain to make transactions more efficient”.

As millennials progress through their careers, we will see “greater digitalisation of the financial services sector due to growing up within the internet age”.

IN 2042 | PREDICT

All personal financial transactions will be confirmed using biometric data.



“Newspapers and cash might be long extinct”

OLIVER KNIGHTS MCSI, 26
ASSISTANT VICE PRESIDENT,
CREDIT SUISSE UK

CISI AWARDS CEREMONY 2017: winner, Private Client Investment Advice & Management

Oliver began his career in private banking following completion of an internship in 2011. His current role involves “building pitch books for prospective clients, monitoring and reviewing existing clients’ portfolios or proposing new investment ideas, meeting new prospects or existing clients”. Keeping up to date with relevant compliance and regulatory matters is considered “hugely important”.

Equally important, he says, is work-life balance. Looking ahead, he thinks millennials will effect significant improvements in this area. “I expect the millennials to push for more casual, flexible and open working environments that reflect those of a start-up nature,” he says. “There will be flatter structures in the workplace as people strive for improving efficiencies. I’d also expect to see more integrated and advanced technology that will convert many manual tasks to automatic.”

He adds: “The millennial generation can help bring the financial services industry back into a more positive light in future, but this won’t be easy,” considering the unflattering image of the industry painted by some media outlets.

IN 2042 | PREDICT

Average life expectancy in the developed world could be well into the eighties. Most schoolchildren will be obligated to learn computer coding as a stand-alone language. Newspapers and cash might be long extinct. ●

SIAN D’AMORE, Chartered MCSI, 30
COMPLIANCE OFFICER, SMITH &
WILLIAMSON INVESTMENT MANAGEMENT

CISI AWARDS CEREMONY 2014: winner, Combating Financial Crime

Sian is “constantly trying to stay ahead of regulatory changes and updates”. She particularly enjoys “working on thematic reviews, reading new regulation and applying it to the business”.

She is enthusiastic about the competition created by fintech start-ups, saying that “the more closely coupled technology and businesses are, the greater the opportunities for businesses and compliance to be directly driven by information and be much more targeted”.

Because millennials are accustomed to having a huge amount of data at their fingertips from multiple sources, Sian says that in the future “they could incorporate this into general working practices, making what is already a dynamic work environment even more receptive to change”.

She says that “trust has been lost” in financial services, but that compliance is about putting the customer first, operating with integrity and working towards stability, so this may change in future.

IN 2042 | PREDICT

Technology will have opened up more opportunities than we can even fathom now.



“Compliance is about putting the customer first”

Jacqueline Lockie CFP™ Chartered FCSI, deputy head of financial planning at the CISI, reflects on how significant developments in 1992 have affected the financial planning profession today

◆ JACQUELINE LOCKIE CFP™ CHARTERED FCSI

A pivotal year for planners

In 1992, the average UK house price was £68,634, a gallon of petrol cost £2.13 and the annual rate of inflation was 3.7%. Interest rates at the year-end stood at 6.88%, the FTSE 100 average was 2,500 and the Maastricht treaty, which founded the European single market, was signed on 7 February. In Downing Street we had John Major as Prime Minister. Looking back, some things have hardly changed at all and others either have, or are, changing significantly.

In the financial advice world we were post-Black Monday (October 1987) and polarisation (April 1988), and the market comprised mostly tied advisers, with some independent advisers. The emphasis was still on commission-based fees as clients did not widely accept the notion of paying explicitly for advice. Campbell Edgar CFP™ Chartered FCSI, head of financial planning at the CISI, recalls that the old Life Assurance and Unit Trust Regulatory Organisation (LAUTRO) commission rates were his first foray into ‘time value of money’ calculations. The indemnity commission was based on a discounted cashflow of premiums on the product being sold, so he used to manually check the commission calculation. The product quotations at that time were typically seven pages long, with regulator-prescribed wording and formulae. However, as long-standing member of the former Institute of Financial Planning (IFP), now merged with the CISI, James Martineau CFP™ Chartered FCSI recalls, there was no mention of the commission paid on a product in those seven pages. There was usually an eighth page – listed as ‘1 of 1’ – stating the amount of the commission. The client rarely saw that page because there was no requirement to disclose the amount of commission being paid until hard disclosure was introduced in 1995.

In 1992, the financial advice world consisted of cold-callers selling products to individuals

The financial world was polarised, with stockbrokers dominating the management of large trusts and the wealthiest of clients and financial advisers selling products to the mass market. Those few who were doing full

financial planning at that time were generally members of the IFP. Jon Golding, Chartered FCSI, one of the founding members of the IFP and also a long-standing member of the CISI – originally called the Securities Institute – recalls that in 1992, the financial advice world consisted mainly of cold-calling advisers selling products to individuals.

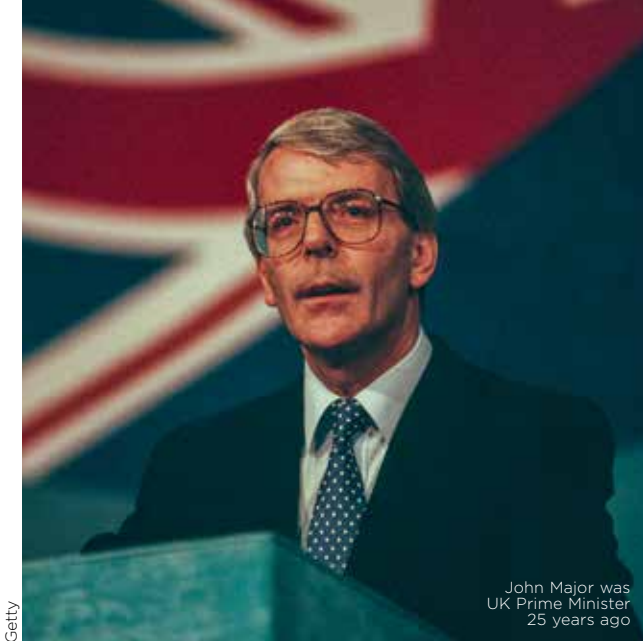
Many advisers who wanted to differentiate themselves from the cold-calling product selling group joined the IFP as it was using the term ‘financial planner’ instead of ‘adviser’. Members of the IFP who wanted to do financial planning, in which the cost of the advice was separated from the cost of a product, sought out like-minded people there. (The CISI’s membership in 1992 initially comprised 4,800 members from the Stock Exchange, followed by practitioners from a range of investment activities, including investment management, corporate finance and settlement.)

However, as another long-standing member of the former IFP, Howard Gannaway CFP™ Chartered FCSI recalls, it was not all plain sailing. He was at the 1992 annual conference, surrounded by many different sorts of advisers, product sellers and even shipping container leasing salesmen, thinking: “I wonder how we are going to get all these people to do actual financial planning?”

EDUCATING ADVISERS

Howard was one of the first to sit the College of Financial Planning’s exam, designed to educate advisers on how to do financial planning, which was growing in popularity in the US. At the same time, the University of the West of England in Bristol was introducing the first financial planning degree. The late Jonathon Timms was a star pupil on that course. His family sponsors the annual award for the highest mark passing the CERTIFIED FINANCIAL PLANNER™ accreditation assessment each year, in his name.

At the 1992 conference, the IFP chairman, Tony Shepherd, gave a moving speech in which he asserted that the Institute believed in financial planning first and foremost, transparency of fees to all clients and not product first, with no mention of the large rates of



Getty

John Major was
UK Prime Minister
25 years ago

commission being paid to advisers. It was one of financial planning's pivotal moments. Articles about that speech were published and persuaded many of today's most well-respected planners, who were struggling to tolerate the commission-hungry environment, to find a home in financial planning.

Clients of advisers generally had no strong opinion about the way in which advisers were paid for selling them a product. Some, including a number of advisers, naively thought that the insurance company or other product provider paid the commission, which was factually accurate, but they did not realise that this money was coming out of the cost of the product that they were buying. This was because, in 1992, advisers were trusted by their clients, who had no reason to think otherwise.

BREAKDOWN IN TRUST

This changed in 1993/4 when the pensions misselling scandal broke and the pension scheme black hole at the Mirror Group, the newspaper group owned by Robert Maxwell, was uncovered. The Maxwell scandal later brought changes to legislation to protect pension funds, but the pensions misselling, which affected many nurses who were encouraged to leave their occupational pensions scheme at that time, contributed to the breakdown in the trusted client-adviser relationship.

This is because in many cases, proper analysis of whether an occupational scheme employee would be better off outside the scheme was not performed. Instead, many advisers appeared to be recommending that individuals leave these pension schemes and buy a private pension without explaining the risks involved. These advisers would benefit from the commission payment earned from setting up that new policy. This caused the regulator to bring in more stringent documentation requirements during the advice process, and later to insist that all advisers giving pensions advice must pass a pensions specialist examination.

At this time there was also a technological revolution going on in the background. Prestwood and Plato software systems were available to planners who wanted to offer cashflow planning advice. However, the

technology savvy also started to take advantage of the availability of generic spreadsheet programs to develop their own customised tools to help with their business requirements. As technology became cheaper and more accessible, many more advisers realised the benefits of using software packages, and started to buy into the financial planning and cashflow planning model to use with their clients. Many realised that these software systems were enabling them to provide an added-value service for which clients would pay, and that planning as a service also set the advisers apart from the product salesmen in the industry at that time.

So the need for advisers to differentiate themselves from the mass market, the increasing availability of cashflow planning software and the pensions scandals all served to make existing and potential clients question what they were paying for, how they were paying and whether the costs were reasonable, along with how their adviser could best serve them into the future.

THE FUTURE

The need for financial planners to differentiate themselves from advisers hasn't changed. The term 'financial planner' is still being used by many who are not actually planning. The term, as in 1992, cannot be trademarked, so it is open to interpretation and abuse. Differences are more subtle these days. Many will argue that they are planning when they are selling products to fulfil a specific need; others will say that financial planning must include the now commonplace cashflow analysis. One thing is clear: the impact of technology and, specifically, cashflow analysis software, in the advice process is what can make a real and lasting improvement in the quality of advice given to clients. But you cannot use this in isolation. Advisers need good and up-to-date technical knowledge to go along with that.

The burden to provide for our own financial future falls increasingly on us as individuals

Looking forward, as citizens, we are facing a continual restriction in support from the state and the burden to provide for our own financial future falls increasingly on us as individuals, whether that be in healthcare or in retirement. In the advice process, the use of cashflow analysis tools, combined with technological improvements in back office systems and continued improvement to risk profiling tools, should reduce the time and cost burden on those giving advice. The younger generation is likely to increasingly use apps to do some of the planning themselves, possibly with guidance from a planner if they can afford one; but the important thing is that these changes will help the wider population engage and take charge of their finances. These things, I hope, will increase the number of people who understand what financial planning is and become clients who planners can help, ultimately making financial planning more widely accessible to all. ●

Barclays is the sixth turnaround for John McFarlane FCSI. He hopes his operational and cultural changes will place it at the heart of the world's most competitive global financial centre

✦ EILA MADDEN ✨ MARK HARRISON

THE FIXER



When John McFarlane was offered the executive chairmanship of Barclays in July 2015, he didn't hesitate to accept, stepping down as chairman of Aviva and FirstGroup to do so. He says he did this because he has always thought of Barclays as "the pre-eminent financial institution in the UK." He continues: "Another factor is that, for reasons which I don't understand, I'm the guy they bring in when everything else has failed."

Barclays is John's sixth turnaround – he has worked directly on two and either been the chairman or chief executive on four. Aviva and the Australia and New Zealand (ANZ) Banking Group are among the list.

At Barclays, his priorities have included boosting shareholder returns by divesting of non-core businesses and making the investment bank more profitable. That included a painful but necessary change of CEO within months of taking over.

Toughest of all has been dealing with the legacy of conduct issues at the bank. It has paid multimillions in regulatory fines in the UK and the US after bank staff were found to have colluded in rigging the benchmark London interbank offered rate (LIBOR), and it has contested US allegations of mortgage-backed securities misselling before the 2008 financial crisis. Now it is back under the spotlight over alleged irregularities in bailout funds from the Qatari government at the height of that crisis. Quite apart from dealing with the financial and reputational fallout of these issues, the bank has required urgent cultural change.

THE EARLY YEARS

John was born in a small town in Dumfries, Scotland, in June 1947. After graduating from the University of Edinburgh, he followed his passion for cars and joined the Ford Motor Company.

"Because I enjoyed work, I thought I really needed to invest in this more heavily so I decided to go to business school and do my Masters of Business Administration without any view about where that would take me," he says. "While I was there I became very interested in finance, and also in marketing, and I believe that you should focus on things that you are passionate about because you generally become good at them."

That led to John landing a job at Citibank before even completing his MBA and he started with the firm's corporate banking arm in 1975. Since then, he has built an impressive career in the sector (see box, page 24), which has earned him one of most coveted roles in UK, if not global, financial services.

THE BARCLAYS CHALLENGE

John set a clear objective for the bank when he joined: to be "clean and prosperous" by 2018. "With these kinds of [turnaround] situations, it's about clarity upfront on the agenda," he says. "Second, it's about the programme and the pace of execution. And third, it's about making sure it happens."

On bonuses:
"When people get money without creating value, that's a problem. Throughout my career as a CEO I always had the belief that if we didn't produce excess returns, above the cost of equity, there were no bonuses. I still believe that's the right principle"

In the early days, he had to make tough decisions about which businesses were less viable in the new regulatory and economic environment and which management team was the right one to steer the bank through this change.

He has form on what he describes as "bringing the difficult decisions forward". As chairman of Aviva, he led on the move to withdraw from the US, writing off \$3bn in the process. At Barclays, his decision to let CEO Antony Jenkins go within months of becoming chairman surprised everyone. Brought in to steady the ship after the LIBOR story broke, Antony was seen as a safe pair of hands but John understood that the retail banking man wasn't the right leader to drive a turnaround in which the investment bank was a key element.

The bank has also divested itself of many parts, and is in the process of withdrawing from Africa, where it employs 42,000 people and has a 100-year heritage. The sales are part of a series of changes designed to rein the bank in from being overextended, very complex and very difficult to manage.

"We will break the back of these changes this year, which is what I wanted to do, and it then allows us to have a clean run towards the end of this year," says John. "The bank will be less than half the size of where we started. It will be much safer, much more focused, more easily managed, better controlled, more compliant and producing higher returns. I'm pleased with the progress that we're making."

SIGNIFICANT CHANGES

Progress is something John knows all about. He has seen significant changes in financial services since entering the profession in 1975. US banks introduced unsecured loans to Britain, which paved the way for more innovative credit solutions to be developed, such as securitisation. He was also at the birth of the derivatives market, so to speak.

During his time at Citibank, a colleague invented the interest rate swap and carried out the very first transaction. Around that time, in the early 1980s, John launched the forward rate agreement. "It was highly innovative in those days with new instruments being born and, of course, they are still with us today," he says.

In the late 1980s he was invited to join the Council of the London Stock Exchange and the Board of The Securities Association, which was the forerunner of the FCA. "That was the onset of a new regulatory type of regime, and it was largely prudential at the time but it has now evolved into prudential and conduct," says John. That evolution is largely thanks to the sector's habit of getting into a financial crisis once every 15 years or so. The 2008 crisis was the fourth that John has lived and worked through.

"If you look at where most of the issues have arisen on conduct, they've all been associated with incentive remuneration," says John. "It was sales remuneration on the retail side that led to payment protection insurance misselling. And on the wholesale side you've seen issues relating to foreign exchange and LIBOR and you'd have to think that, despite the governing system of the

On dressing down:
"If we want our customers to respect us, we've got to look as if we're trustworthy and reliable because banking's a trust business. I think we need a degree of formality"

organisation, if there's a lot of money at stake by cutting a corner, then you can see why people are attracted to that."

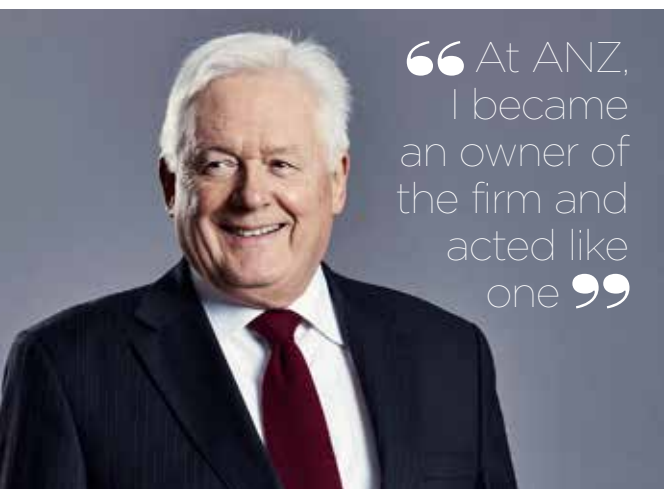
John believes share ownership is an antidote to such temptations. As CEO of the ANZ Banking Group, he could afford to defer all of his salary and bonuses into stock, bar \$43 a year, which was deducted to pay for his staff club membership. "That way," he says, "I became an owner of the firm and acted like an owner of the firm. I wasn't too worried about short-term returns; I was worried about long-term shareholder value, and it worked very well." Current Barclays CEO Jes Staley also put his own money at stake, buying \$10m worth of shares when he joined the bank in December 2015.

RIGHT AND WRONG

But more fundamental than being negatively influenced by the promise of big bonuses is simply understanding the difference between right and wrong behaviour. In the early days of his career, John spent time in dealing rooms. Traders were never allowed to have secret conversations. "I remember the chief dealer running across the other side of the room to a dealer who had his hand over the phone and saying: 'Get your hand off that phone; I want the people beside you to hear what you're saying'. The values back then were incredible, and so people responded accordingly with their behaviour."

Today, technology-based communication can make it harder for organisations to control traders' behaviour and easier for traders to deviate from what's expected of them. Barclays has established a Board Reputation Committee that considers these matters and ensures the bank creates the right cultural environment in which employees know the difference between right and wrong, and never entertain doing the wrong thing. "It's been absolutely necessary because practices were weak and incorrect, and we've had unlawful activity," he says.

John sees the CISI's role in ensuring practitioners act in the best interest of shareholders and customers as pivotal, adding that the Institute's principles-based approach to this is absolutely right and makes it less likely that people will cross rules-based boundaries.



On regulation:
 "We had many years of self-regulation and it didn't work to control the excesses and help prevent crises. The fact that we've moved to a more statutory basis of regulation is a very good thing because it has the force of the law behind it"

On turnarounds:
 "If you're going to turn something around, you've got to try to do it in two years. It's not always possible, but bring the difficult decisions forward and that stands you in really good stead going forward"

**JOHN MCFARLANE,
 CHAIRMAN, BARCLAYS**

- 2015** JOINS BARCLAYS' BOARD IN JANUARY; BECOMES CHAIRMAN IN APRIL
- 2013** APPOINTED CHAIRMAN OF FIRSTGROUP
- 2011** JOINS BOARD OF AVIVA; BECOMES CHAIRMAN IN 2012
- 2008** JOINS ROYAL BANK OF SCOTLAND AS NON-EXECUTIVE DIRECTOR
- 2007** RETIRES FROM ANZ BANKING GROUP
- 1997** MOVES TO AUSTRALIA TO BECOME CEO OF AUSTRALIAN AND NEW ZEALAND (ANZ) BANKING GROUP
- 1993** APPOINTED GROUP EXECUTIVE DIRECTOR OF STANDARD CHARTERED
- 1975** JOINS CITIBANK, ULTIMATELY BECOMING HEAD OF UK AND IRELAND
- 1969** GRADUATES AND JOINS FORD EUROPE

He is concerned that a rules-based mentality is affecting regulators' ability to police the industry and, more fundamentally, their authority. If they cannot prove that a particular practice is illegal, they are finding it hard to warn firms off from pursuing it. This is not how it used to be. "When I was at Citibank, I used to get called in to the Bank of England and the head of supervision would say: 'My people tell me that you're thinking of doing this' and I'd say 'Yes' and they'd say: 'Well, we'd rather you didn't' and that was the end of it. And that was because he was right, not because he had the power." That said, John believes statutory rules are needed because self-regulation has not worked. What regulators could do, however, is reflect on and simplify complex rules.

MAKING BREXIT WORK

Could this be on the cards as the UK progresses towards Brexit? Brexiteers did, after all, promise liberation from Brussels-born red tape. As chairman of industry body TheCityUK, John has been lobbying for the best post-Brexit deal for the UK's financial and related professional services sector.

"The UK is, and will remain, Europe's financial centre. It is enormously important," he says. "We want the Government to negotiate the best possible deal for all UK-based business, including foreign participants – American banks, Japanese banks, and so forth – because that's the bit that's complicated and difficult to easily move elsewhere."

The "best possible deal" means mutual market access and recognition of each other's regulation. Continued access to talent is also key. "We understand we may not get what we would like to have and therefore we have contingency plans in place." He adds: "Our challenge is to maintain the UK, and London in particular, as the most competitive global financial centre in the world." ●

The pain of financial services regulation over the past quarter century would be worth it if it had contributed to the public good, but it is not easy to assess whether this is the case

◆ CHRISTOPHER BOND & EILA MADDEN ◆ GREAT APES

A CHANGING LANDSCAPE

Twenty-five years is a long time in financial regulation. Since then there have been many styles of regulation – from self-regulation through high-level rules to our current hybrid approach of principles and detailed rules.

Regulatory bodies have risen and fallen each time there is a crisis. Who would have thought, after the Barings Bank failure, that the Bank of England would regulate not only banks but strongly influence the regulation of other financial sectors too? The balance between firms and investors has also moved – today, judging from the ‘tone from the top’ and the use of regulatory tools other than enforcement, the FCA is listening more to firms’ concerns about the level and cost of regulation.

BUILDING BLOCK

Some pieces of regulation have seen more transformation than others. Mark de Ste Croix MCSI, head of the compliance and legal department at wealth management firm Raymond James Investment Services, believes the single most significant and impactful piece of regulation in the past 25 years is the Financial Services and Markets Act 2000 (FSMA 2000).

The most significant and impactful regulation in the past 25 years is the FSMA 2000

He explains: “It ushered in a new way of thinking: industrialising financial services regulation and addressing issues at a level of detail that forced firms to change the way they viewed the market, how they were structured and how they operated. Over time, it changed the behaviour of firms’ executives, wealth managers and their clients, and ultimately transformed firms into more client-focused, professional businesses.” While the FSMA’s aim is well intentioned, Mark says the “complex, convoluted and inaccessible” regulation is at odds with the regulators’ demands for firms to offer their clients a simple and transparent service.

The past 25 years has also witnessed a change in the culture of the sector. Alexander Culley, Chartered MCSI, compliance officer, says: “Many brokers and traders may not be familiar with N2 (1 December 2001 – the date that consolidated statutory regulation came into existence via the FSA) but it changed their world.

“It became mandatory for their calls to be recorded and their instant messages stored. Going for a drink at lunchtime became a risky affair: one lapse of judgment could put you on the wrong side of the FSA’s Principles for Approved Persons and cost you your career. Changing jobs became harder. Detailed background checks were introduced, which meant cautions received for childhood pranks became relevant again. And you had to make sure any client hospitality you accepted didn’t breach the gifts and entertainment policy.”

PUBLIC BACKLASH

N2 was a response to growing public opinion that something was awry in the opaque world of financial services, and private equity (PE) bore the brunt of that feeling. Until 2011, PE firms had always been subject to light touch European regulation, but their only real concerns were around the specific national placement regimes in various countries while fundraising, and complex tax structuring for investments.

The Alternative Investment Fund Managers Directive 2011 (AIFMD) changed all that. Ashley Long FCSI, partner and CFO at PE firm GMT Communications, says the Directive highlighted several issues. “The flexibility to undertake business in Europe without interference had been reduced,” he says. “Aspects of the business that were considered private or between the firm and its investors, such as remuneration, risk management, transparency and detailed reporting, were now outside their sole control.

“Firms realised that this piece of legislation was born out of the financial crisis and the banker bashing that followed, with few real prosecutions and the public looking for revenge,” he adds. ◆◆

“The legislation was politically motivated and PE was around the bullseye. It put the PE sector firmly on the legal, regulatory and tax radar. Private doesn’t mean private like it did 25 years ago!”

PROTECTING THE SECTOR

Most of the game-changing legislation over the past quarter century has meant to protect the public from unscrupulous practices within the financial services sector, but one piece of law has sought to protect the sector itself – the Money Laundering Regulations 1993 and gradual expansion of Anti-Money Laundering and sanctions regime regulation.

“In the early days, a quick check of the client’s address in a hard copy of *Bankers’ almanac* was quite sufficient for the life of that client,” says Ffion Thomas, Chartered MCSI, head of risk, compliance & MLRO at Mitsubishi UFJ Trust International. “Today, whole departments work on obtaining initial client due diligence information, ongoing monitoring of transactions, politically exposed persons, sanctions, and keeping all the information up to date. The legislation, guidance, best practice and ongoing technological developments in this area have grown so much, and do not appear to be decreasing any time soon.”

THE CONSEQUENCES

The passing of stringent regulations has made politicians and the public feel better, but has it been good for the consumers of financial services?

In the wealth management and financial planning fields, Mark says that “firms are more focused on client needs, wealth managers are better qualified and supervised, and the range of investment products available is staggering”. Yet, he says, costs have risen and fewer people can get quality advice.

Campbell Edgar CFP™ Chartered FCSI, head of financial planning at the CISI, concurs. “As a result of the ending of product provider commission to distributors under the Retail Distribution Review, around 25% of the regulated adviser population found alternative employment or retired,” he says. This created a supply and demand imbalance in the market for planning and advisory services. As a consequence, anyone bar the high-net-worth, high-earning individual or family, potential pension transferor, or recent inheritor has been disenfranchised, opening up an ‘advice gap’. He adds: “It looks like the Government wants to dilute a lot of ‘advice’ to ‘guidance’, and wants its delivery to be ‘robotic’.”

Gerard Dique MCSI, a senior compliance officer at asset management firm AXA Investment Managers, wonders if the regulatory changes we have witnessed over the past 25 years have occurred more to serve politicians’ desire to be seen to be acting in, rather than to serve, the public good. He

cites the evolution that rolled multiple self-regulatory bodies, such as the Investment Management Regulatory Organisation (IMRO), into the FSA, which is now the FCA and Prudential Regulatory Authority (PRA) (see opposite).

“It remains to be seen if this reform has improved regulation or merely changed the seats around and reformed some of the governance, and is a cosmetic change driven by a Conservative Party hell-bent on reforming Labour’s FSA creation,” says Gerard. “I suspect performance of the regulators’ oversight is unlikely to be enhanced when the same staff carry out the same roles, under very similar Handbook Rules, with just titles and locations amended.”

He is also sceptical about the roll-out of the Senior Managers’ Regime (SMR) for all firms in 2018. Already in place for banks and insurance companies under the regulation of the PRA, the SMR’s genesis is in the IMRO’s ‘individual registration’, which evolved into the FSA’s Approved Persons Regime and will now be replaced by the SMR.

LOOKING FORWARD

Alexander is less sceptical, believing that the SMR will herald the beginning of a more sober age.

“Recruiting your mate over lunch will officially be consigned to the past,” he says. “Brokers and traders will need to be able to personally demonstrate continuing professional development. Heads of desk will be obliged to appraise the performance of their staff on much more than just their contribution to the profit and loss statement.

“The question is: is the new regime already out of date? Today, the growth of automated, globalised trading means that any latter day Leasons no longer pose the greatest conduct risk. It’s the legions of latter day Alan Turings operating from third countries that we need to be most worried about.”

“It remains to be seen if reform has improved regulation or merely changed the seats around”

The future holds other regulatory challenges and opportunities: MiFID II’s radical impact on financial markets and investor protection; the uncertain future for mutual access between the UK and the EU after Brexit; bank separation for large retail banks; and recovery and resolution plans for larger firms. As important are the challenges and opportunities that developing technology will bring, such as the impact of blockchain on settlements; the increasing professionalisation of compliance and risk managers; and the international tightening of the tax and data protection regimes. Perhaps most significantly there is the recent mood change from governments and regulators slowing, or even rolling back, some of the post financial crisis reforms, such as in bank prudential capital and heavy penalties for regulatory breaches. ●

REGULATORS THROUGH TIME

-  **Financial Conduct Authority**
-  **Competition and Markets Authority**
-  **Panel on Takeovers and Mergers**
-  **The Pensions Regulator**
-  **Department for Business, Energy and Industrial Strategy**

The Pensions Act 1995

The law establishes the **Occupational Pensions Regulatory Authority (OPRA)** as the statutory regulator of the UK pensions industry. Its role is to enforce the provisions of the Act and it has wide-ranging powers

MMC abolished

The Government abolishes the **Monopolies and Mergers Commission (MMC)**, set up in 1973

SIB becomes the FSA

With the arrival of Gordon Brown at the Treasury, the **Securities and Investment Board**, founded in 1985, becomes the **Financial Services Authority (FSA)**

FSA's powers expanded

The FSA's powers are expanded dramatically with the passage of the **Financial Services and Markets Act 2000**. At the same time, it is given responsibility for the **Securities and Futures Authority (SFA)**. This marks the end of the SFA's self-regulatory remit and gives the FSA statutory responsibility for supervising the trading in shares and futures in the UK

The DTI becomes the BERR

The **Department of Trade and Industry**, established in 1970, is succeeded by the **Department for Business, Enterprise and Regulatory Reform (BERR)**

FCA replaces the FSA

By the time the FSA is abolished, at the end of Gordon Brown's time as Prime Minister, it has 3,800 staff. On abolition, its remit is split between a number of existing agencies and a new 'super-regulator' - the **Financial Conduct Authority (FCA)**

OFT's growth continues

The OFT now has 579 staff and an annual budget of £55m

TPR

The TPR employs around 500 people and oversees the pensions industry in the UK. Its wider powers and aims now include the remit to improve confidence in work-based pensions by protecting the benefits of scheme members, as well as maximising employer compliance with their duties

FCA

The FCA now employs 3,000 people and jointly acts as the UK's primary financial regulator, alongside the Prudential Regulation Authority - an offshoot of the Bank of England

CMA

The CMA now employs roughly 700 people

PTM

Set up in 1968, this 25-staff body is the only one to remain unchanged

CC replaces the MMC

The MMC is replaced by the **Competition Commission (CC)**, which has more powers and independence than the MMC. That allows the 180-employee CC to decide on inquiries instead of providing recommendations to Government. The CC is also responsible for taking appropriate remedies following the identification of competition problems

OFT powers boosted

The **Office of Fair Trading**, established in 1973, has its role modified and its powers changed with the **Enterprise Act 2002**, when it is made independent from government and given more power to investigate market abuses

The Pensions Act 2004

abolishes OPRA and replaces it with **The Pensions Regulator (TPR)**

The BERR becomes the BIS

BERR merges with the Department for Innovation, Universities and Skills to form the **Department for Business, Innovation and Skills (BIS)**

OFT and CC abolished

The OFT and the CC are wound up and their duties and powers are rolled into a new competition watchdog, the **Competition and Markets Authority (CMA)**. Responsibility for regulating the consumer credit industry goes to the FCA

BEIS

BIS is replaced by the **Department for Business, Energy and Industrial Strategy (BEIS)**. At various times in its history, this department has held responsibility for, among other things, company law, trade, business growth, innovation and employment law

The path to enlightenment

Donald Brydon CBE, chairman of the London Stock Exchange Group, reflects on the philosophies gained and lessons learnt from his 48-year career in financial services, and explains why integrity is key to the future of the sector

◆ ROSALIE STARLING

“We should be careful to get out of an experience only the wisdom that is in it” – a philosophy shared by Mark Twain many years ago, which comes to mind when thinking of Donald Brydon, whose path through the financial services sector has been both long and diverse.

Chairing more boards throughout his lengthy career than can be counted on both hands – and across industries as diverse as food and drink to finance – Donald insists that it is all about knowledge cross-fertilisation: good chairmanship is a skill. “I’ve never sat down with any chairmanship and had goals at the start, because you don’t know enough to assess what the right strategy is,” he says. “But the one thing you can do is make sure you have a first class board, lead them in an appropriate way, and ensure you support and challenge management in a constructive way.”

TRAVELLING THROUGH MINEFIELDS

Graduating from the University of Edinburgh with a bachelor’s degree in mathematical science in 1969, Donald jumped into the world of financial services as an analyst at what was then the British Airways Pension Fund. Soon after, in 1971, he experienced his first “big event”, and one of Britain’s largest ever corporate failures: the bankruptcy of Rolls-Royce.

“You can tell when people have started in the industry; there are the natural bulls and bears depending on the first big event that happens to them,” he says. “Rolls-Royce has always made me sceptical of bull markets, but if people have joined as the markets are on the way up they’re almost always positive – it’s quite interesting. I think the next strand of this whole game will be around psychology.”

Donald began a 20-year career with Barclays Group in 1977, expanding the investment arm BZW Investment Management – a period punctuated by two momentous events. In 1986, the Big Bang (see cisi.org/bigbang) prompted a push towards professionalism and meritocracy, values Donald supports, as well as a huge expansion in products and services. “It was a manifestation of globalisation, and of completely changed access to capital. Philip Augar [author and broker] called it the death of gentlemanly capitalism, and it’s a very good way of describing it.”

The crash of 1987 saw stock markets shed value at alarming rates. “BZW was the biggest market maker at the time,” says Donald. “It was our responsibility to make sure the market continued to function, that we played the right role, and we managed the risk in the right way. That was a really important moment.”

In 1996, Donald left BZW for AXA Group, where he served another lengthy 15-year stint, including executive and non-executive positions at AXA



Investment Managers and AXA Framlington. It was here, in 2007, that another storm hit: the global financial crisis. “That was all about people discovering they didn’t actually know what they were doing,” he says. “The crisis enforced the significance of really understanding how things work.”

A CHANGING WORLD

Knowledge – not least due to incidents such as these – has been pushed to the forefront of the modern financial agenda. “This is where organisations like the CISI come in,” says Donald. “It’s doing the things that need to be done surrounding education and values, as well as trust and setting behavioural standards.”

Attitudes, too, have changed immeasurably, he says. “There’s something very interesting going on now about loyalty. I’ve seen surveys that say 87% of millennials believe they are loyal to their company, but 72% of management do not think that they are.” The age of allegiance spanning decades is apparently fading, with a more ‘loyal in the moment’ mindset taking its place. “That’s changed, and it’s a big change.”

Integrity, shared responsibility, service mentality, value for money, choice and innovation are Donald’s “immutable” qualities for those wanting to succeed in the industry. While these core values have stood the test of time, attitudes towards the customer are markedly different. “Looking back, exchanges were about telling the customer how they would receive their service: if you deal on our exchange this is the service, take it or leave it,” says Donald. Things today have completely changed, with customer choice and partnership at the heart of the London Stock Exchange Group’s (LSEG) business model. If you put customers first today – into a technology world – they decide on the channels and the routes, and how products and services get delivered.”

And trust forms a huge part of this modern business-customer rapport. “The trust that customers, employees and the wider public places in business now is fundamentally essential.”

TOMORROW’S COMPANY

This is the ethos behind the LSEG’s Open Access philosophy, which encourages independent thought to embrace the trends and demands of the modern world, and the modern consumer. Technology, of course, plays a huge part in this. The interest rate derivatives venture CurveGlobal has been one of the LSEG’s recent success stories since it went live in September 2016, a product of “smart opportunism” by both the management and people. “There’s an innovation streak that runs through the entire building,” says Donald. “If you combine that with an intense desire to partner with our customers, as opposed to compete or take advantage of them, then building new markets, platforms and products becomes a natural part of the DNA.”

DONALD BRYDON CBE

2015–PRESENT: CHAIRMAN, LSEG

2014–PRESENT: CHAIRMAN, CHANCE TO SHINE

2012–PRESENT: SCIENCE MUSEUM FOUNDATION

– 2016: CHAIRMAN

– 2012: DIRECTOR

2012–PRESENT: CHAIRMAN, MEDICAL RESEARCH COUNCIL

2012–PRESENT: CHAIRMAN, SAGE GROUP

2009–2015: CHAIRMAN, ROYAL MAIL

2005–2008: CHAIRMAN, TNS

2004–2013: CHAIRMAN, SMITHS GROUP

2003–2010: CHAIRMAN, LME

2003–2007: SENIOR INDEPENDENT DIRECTOR, SCOTTISH POWER

1997–2007: SUN LIFE & PROVINCIAL

1997–2004: CHAIRMAN, AMERSHAM

1997–2004: SENIOR INDEPENDENT DIRECTOR, ALLIED DOMECQ

1996–2002: AXA GROUP, CHAIRMAN AND CEO, AXA INVESTMENT MANAGERS

1977–1996: BARCLAYS GROUP

– 1996: ACTING CEO, BZW

– 1994: CHAIRMAN AND CEO, BZW INVESTMENT MANAGEMENT

– 1986: DEPUTY MD, BARCLAYS INVESTMENT MANAGEMENT

– 1981: INVESTMENT MANAGER’S OFFICE

1970–1977: BRITISH AIRWAYS PENSION SCHEME (INVESTMENT MANAGEMENT)

1967–1970: UNIVERSITY OF EDINBURGH – RESEARCH ASSOCIATE, ECONOMICS

1962–1967: UNIVERSITY OF EDINBURGH (MATHS)

1950–1962: GEORGE WATSON’S COLLEGE, EDINBURGH

Now heading up the firm’s board, Donald is ready to ride the wave of change once again. While his current term only dates back to July 2015, Donald’s ties with the company go back some 25 years, when he served as the first chairman of the FTSE Indices. ➔

“It’s transformed enormously, beyond all recognition,” he says of the firm, which has developed from a trading business into a major global entity encompassing a post-trade division, IT division and an intellectual property division. And yet another change is possibly in the works, in the form of the company’s highly publicised planned merger with German market infrastructure group Deutsche Börse AG, announced in March 2016, which at the time of going to press is awaiting the decision of the European Commission’s review.

“Capitalism can be the most egalitarian economic stewardship model ever created”

If the merger is consummated, it will result in the creation of a world-leading market infrastructure company, solidifying links between the City of London and the continent. “We’ve got a strategy that ensures Europe, as a geographic entity, becomes relevant in the world of exchanges and capital markets,” says Donald. “Whatever the EU will turn out to be, and whatever the result of our merger discussions, we will have feet both inside and out.”

A UNITED FUTURE

Cohesion and collaboration are essential for the future of the industry, in both a business and societal context, says Donald. In his role as chairman of cricketing charity Chance to Shine, Donald is highly engaged with the promotion of tolerance, integrity and aspiration to young people – “as Lord [Mervyn] King says: ‘You don’t have to be in a classroom to learn’”. The promotion of these values is “also the responsibility of those of us who work in the financial industry,” he says.

“I want to look at how we can strengthen the ties that bind financial markets and society together, and how we can support innovative high-growth small- and medium-sized enterprises (SMEs) [which represent 99.9% of UK companies], enabling innovation, growth and job creation in the UK, Europe and indeed globally.” LSEG’s ELITE programme, which assists in the development of private companies, has allowed the group to do just that, in local and far-reaching markets around the globe. Meanwhile, the firm’s Sri Lankan technology arm MillenniumIT is a major business developer in second and third world countries, involved in 40–50 exchanges worldwide.

Capitalism, too, can be used to promote these standards, although distrust is rife due to a society-wide “disconnection” from wealth, says Donald. “I believe capitalism can be the most democratic, popular and egalitarian economic stewardship model ever created, but it needs to adapt its sharp edges.” Through investment-backed innovation, capitalism can generate a new wave of wealth, and this can be achieved through

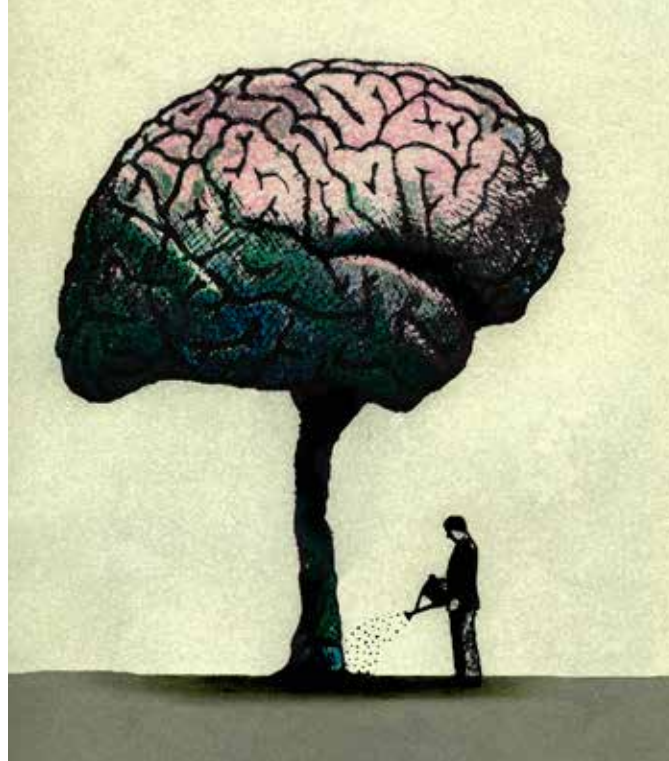


improved access to risk finance for growth companies. “Risk capital should be distributed directly at the bottom of the entrepreneurial ladder, rather than just debt from the top via a handful of lenders.”

Retail participation in financial markets can also assist in “connecting” the population with capitalism. “The public deserves the opportunity to benefit from growth and value creation of the UK’s own future Facebooks and Googles,” says Donald. To promote engagement on a wider scale, LSEG is partnering with the CISI to produce educational, public materials on the basic principles of personal finance and investing.

Whatever the future brings, the financial sector has a responsibility to society as a whole

Whatever the future brings, the financial sector has a responsibility to society as a whole, he says. “Never has there been a greater need for those leading and administering the financial markets on an international basis to have at the heart and core of their existence two values: integrity and accountability.” ●



Lifelong learning

When the financial services sector needed to teach its practitioners professionalism and integrity, the CISI stepped up to the plate. That role is as relevant today as it was 25 years ago

◆ MELANIE STERN ◆ GETTY

Graham Withers, Chartered FCSI, joined the financial services sector after what he describes as a “chequered post-university history”, which included jobs in a morgue, a nightclub and as a pub landlord. When his wife fell pregnant, not wanting to bring their child up in a pub, the couple moved to Tunbridge Wells where, after three months of jobhunting, Graham landed a role as an assistant with stockbroker Neilson Cobbold.

“After a couple of interviews I was told to cut my hair, which was down to my back in those days, and I started as a highly qualified tea boy in 1993,” says Graham. He immediately joined the Securities Institute (SI), the CISI’s precursor, to study for the Securities Industry Diploma. “It was, and still is, widely seen in our industry as the investment managers’ and stockbrokers’ exam, so I got on and did it and it gave me legitimacy in the eyes of my peers,” he explains.

In search of an extra string to his bow, Graham put his hat in the ring to become an exam panel member for the CISI. He had already been mentoring junior colleagues at Rathbones, which acquired Neilson Cobbold in 1996, and

was interested in finding other ways to help people progress in their careers. He joined the Private Client Investment Advice & Management (PCIAM) Examination Panel in the early 2000s and was appointed chairman within five to six years; a role he still holds today.

And almost 25 years after joining Neilson Cobbold as a “highly qualified tea boy”, Graham is an investment director with Rathbones. He is just one of the hundreds of thousands of people whose successful and rewarding career has started with a CISI exam.

STUDENT MEMBERSHIP

The Institute’s 20,000 student members comprise half its membership. It could, though, be said that all 40,000 members across more than 80 countries are students engaged in lifelong learning. They enjoy access to a constantly-evolving programme of continuing professional development (CPD), mandatory for non-student members from 2017, which includes refresher courses, seminars, workbooks, e-learning modules and 78 examinations. For those just starting out in their career and based in the UK, the CISI offers a number of workplace apprenticeships. ◆

8,578

The number of applications to join the Securities Institute when it was founded

In a generation, the CISI membership has become a vibrant, global campus. But what has driven this over the 25 years the Institute has existed, and how will its role in educating financial services professionals evolve?

THE GOVERNANCE ERA

In the 1990s, the electronic trading of financial products went from niche to norm. Banks all over the world structured countless forms of ‘exotic’ financial products and traded them at unprecedented volume and speed.

With this came new risks, which created demand for better governance and regulation and a drive to formalise it through compliance rules, governance codes and reporting requirements. The need for training and education about these new ways of working was the defining market opportunity for the SI, set up in 1992.

It signalled its belief in the value of learning early on. In 1993, it adopted the requirement that professional applicants must have passed its own diploma (SIE Dip) and possessed three years’ relevant experience, while student applicants had to be studying towards it.

9

The number of approved apprenticeship schemes that embed CISI qualifications

The focus on education seemed to resonate with the sector. Students accounted for 6% of the total membership in 1992 but that had grown to almost 23% just five years later as new entrants to the profession sought to build their career on a solid foundation of recognised and respected qualifications.

THE CISI’S EARLY OFFERING

The Institute’s professional education department first offered 20 well-established examinations brought over from the stock exchange. It administered the Securities and Futures Authority’s (SFA) Registered Persons examinations and offered ten diplomas, including Corporate Finance and Operations Management.

The Institute’s first workbooks reflected the fashions of the day, including *An introduction to futures and options* and *Regulatory environment*. It hosted monthly seminars for members to update their knowledge, eventually customising these for delivery in-house at firms. A decision at the Securities and Investments Board (later renamed the Financial Services Authority), requiring self-regulatory organisations to formalise staff training, increased the number of individuals taking the Institute’s exams and training courses by 20% in its second year. By 1997, the year it formed its CPD scheme, it delivered 18,707 exams and that grew to 54,620 by March 2001. By its tenth anniversary, in 2002, it offered 37 exams.

ENDURING STANDARDS

All told, the Institute has run over 190 individual exams in its 25-year history, feeding into 51 qualifications. Many have come and gone with the regulatory tides and economic boom-and-bust cycles. Yet there are some on the CISI’s books today that endure from its early years.

PCIAM – which Graham describes as “my paper”, such is his commitment to the exam – is a case in point. Originally part of the old Securities Institute Diploma, it became part of the Chartered Wealth Managers’ exam when the diploma was phased out. PCIAM offered an excellent grounding in the knowledge needed for a career in the investment sector. Its first chief examiner called it a general practitioner’s paper rather than a consultant’s paper, which, says Graham, meant it was a “good knowledge giver”.

For this reason, many practitioners continued to take it as a stand-alone exam but it really came into its own in the late-2000s when the Retail Distribution Review (RDR) required experienced investment managers to re-qualify in order to continue to practise. For those affected, PCIAM was the paper of choice. The exam panel went from administering two papers a year to 100 candidates, to offering six papers a year to around 2,000 candidates.

“It was a completely bonkers time,” says Graham. “We were having to set papers before the last one had been marked to get ready for the next one and people were having to apply for resits in case they failed. They were trying to get qualified before the RDR window closed.”

Today, PCIAM remains a stand-alone exam, regularly taken by those wanting an introduction to the sector and

EVOLUTION OF LEARNING AT THE CISI: 1992–2017

1992 – **474** student members out of 8,578 total members



2017 – **20,000** student members out of 40,000 total members



That’s an increase from **6%** to **50%** of the overall membership



Exams offered in **80** different countries. Up from **4** in 1992

Number of exams offered



Up from **20** in 1992

Number of diploma subjects offered



1992 **10** (at level 6)
2017 **11** (at level 6 and above)

Number of applications to take the diploma exams

1992 – **1,500** (for level 6 diplomas)

2017 – **1,627** (for level 6 and above diplomas)



In 2017...

35 Number of UK schools delivering CISI qualifications

21 Number of UK universities delivering CISI qualifications

20 Number of overseas universities delivering CISI qualifications

EDUCATIONAL PARTNERSHIPS

The CISI's Educational Trust, formed in 2011, works to further financial services education in schools, colleges and universities, delivering the Institute's charitable objective of dissemination of financial knowledge and information about the field of securities and investment. Thirty-five UK schools currently deliver CISI qualifications, while 21 UK universities and a further 20 universities outside the UK partner with the Institute to offer CISI qualifications on accredited degree programmes. Demand is also growing for accredited school programmes to develop students' hard and soft skills for better employability – understanding the finance and investment worlds as well as being able to undertake presentations, networking and teamwork.

20

The number of universities outside the UK that partner with the Institute to offer CISI qualifications

by qualified advisers seeking to refresh their background knowledge. It can also count towards one of three modules required to gain a Masters in Wealth Management.

DOING WELL BY DOING RIGHT

Over the years, teaching students how to behave has become just as important as teaching them what to know. In April 2013, the Institute became the first professional body requiring exam candidates in the wholesale and capital markets sectors to pass an integrity test.

“People like me want to give back to an organisation that has helped us in our careers”

IntegrityMatters puts users through a series of ethical dilemmas they may face at work, and asks them to decide what they would do in that situation. Passing the test is a requirement of membership. Kevin Moore, Chartered MCSI, CISI's director of global business development – who joined in 2007 after a long career in retail banking with Lloyds – says the number of seminars the CISI offers on integrity-related topics has grown from around ten annually to around 100 or more in some years, including delivery in-house for financial institutions.

Ethics have evolved from a gentleman's handshake to a comply-or-explain regulatory requirement. “When I was in banking, people took behaviour for granted, so there wasn't an understanding of what constitutes good behaviour,” says Kevin. “Today a number of large international banks we work with openly discuss the need for good behaviour, putting it front and centre.”

GLOBAL REPUTATION

The Institute built an overseas reputation for its education programme from inception, sustained by the increasing globalisation of financial markets. Five years on from its birth, its International Capital Markets Qualification exams were taken across 13 countries, as the qualification became an industry standard overseas.

By 2002, it had delivered exams and training in 20 countries, including training for the Chinese

government and its securities market; global custody education for India's national stock holding corporation; and exam management on securities and investments for the Russian Securities and Exchange Commission, sending a team to Moscow to install examination systems and prepare the Commission to use it. Delegations from Eastern Europe and the Far East came to London to understand the Institute's offering, seeking its help to set up their own local offerings.

Today, with members across 116 countries, a growing contingent of CISI students are in territories where the Institute does not yet have formal operations, and where students may face logistical challenges to accessing education. In response, CISI qualifications are now readily available to students in the Middle East, China, Africa and Latin America through e-learning.

Offering online teaching and learning resources, including interactive e-books and video tutorials, is important to the CISI's aim of reaching new members overseas, as well as appealing to young people. CPD is also offered through its own television channel, CISI TV, including filmed events, as well as pre-recorded tutorials and *Professional Refresher* learning modules across a range of topics.

GIVING SOMETHING BACK

Alongside increasing digitisation, the Institute continues to expand its range of qualifications and geographical reach. It plans to respond to strong interest in events and courses on the Senior Managers and Certification Regime, Conduct Rules and MiFID II. There is also demand for training around the misuse of technology, and in leadership and communications.

Two new exams for the Kuwaiti financial market regulatory environment are being prepared for release in 2017 – in English and in Arabic – while the new International Certificate in Wealth & Investment Management will be released for the Chinese market. These developments will be part of a constantly evolving offering that helps members to achieve globally recognised standards of professionalism and integrity.

“Professional training and assessment of competence was a key objective of the CISI when it was formed 25 years ago,” says Scott Dobbie FCSI(Hon), former chairman of the CISI. “It is very rewarding to see how well the Institute has successfully adapted and widened its range of services in this respect to meet the changing structure of the financial services industry and, hence, the changing needs of the market and of its members.”

For members like Graham, the Institute's professional standards have given him the legitimacy to succeed, and he hopes he can pass that on to younger members. “There are an awful lot of people like me who want to give something back to an organisation that has helped us in our careers in the past by giving us the qualification we needed to get on in our working lives,” he says. “It's quite nice to be able to help to progress the next generation.” ●

116

The number of countries that CISI members come from, in regions including Africa and Latin America

On our 25th anniversary, we look to the future and ask: what does the increasing use of cashless payments mean for the financial services sector?

HEATHER CONNON

Cashing out?

On 8 November 2016, India's Prime Minister, Narendra Modi, made a surprise announcement – he was pulling Rs1,000 and Rs500 notes out of circulation. He guessed that millions of fake or ill-gotten rupees were being stockpiled in these denominations, or unscrupulous savers were simply trying to escape paying tax on their savings. Rendering these notes worthless would force people into banks to exchange them for legal tender.

It was an attempt to stamp out corruption, crime and tax evasion. Cashless payments leave an electronic audit trail; cash payments are hard to trace, monitor and tax. Modi wants to push India towards becoming a cashless society but many are reluctant to give notes and coins up.

The majority of Indians support the sentiment behind Modi's move, but its consequences have been nothing short of a nightmare for cash-dependent citizens. Millions have found themselves stuck in bank queues for hours at a time, patiently waiting to exchange their notes for smaller denominations, or to withdraw their daily cash allowance – this was initially just Rs2,000 (£24) but was raised, over time, to Rs10,000 (£120). But with

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larger denominations out of circulation, change has been in short supply and customers have often found themselves returning home empty-handed. Rents, school fees and other payments have been missed.

Customers willing to bank digitally have experienced little inconvenience. *Quartz India* reported on Akodara, whose 1,200 citizens buy everything through mobile banking. The village, 60 miles from Ahmedabad, has barely noticed that demonetisation has rocked the nation.

THE PERSISTENCE OF CASH

But cash still accounts for 85% of all transactions, according to MasterCard. In many places, the amount of cash in circulation continues to grow, even as cashless payments become more common. “The persistence of cash is surprising given its inconveniences and the risks of carrying it around,” says a MasterCard spokesperson. “Electronic payments, in contrast, are proven to boost economic growth while advancing financial inclusion. For those reasons, countries are working to make payment systems less dependent on cash.” Some countries have had more success than others. In Sweden, there are banks with no facilities to give customers cash,



and a growing number of shops refuse to take it in payment. In Australia, cash transactions fell from 69% in 2007 to just 47% in 2013. In the UK, contactless payments rose threefold between 2014 and 2015, when they accounted for almost one in every ten card payments. And in China, people use the Alipay eWallet for everything from paying for taxis to transferring money to their friends.

The move to cashless technologies certainly looks rapid. Globally, the volume of non-cash payments is estimated to have grown by more than 10% in 2015, according to the *World payments report* produced by BNP Paribas and CapGemini, with growth in emerging Asian markets taking place at a particularly rapid 31.9%. In some developed markets, cash is no longer king; Swedish economists like to boast that Sweden will be a cash-free economy by 2030. In the UK, statistics from Payments UK show that the share of purchases made in cash fell from 64% in 2005 to 45% in 2015 and it forecasts that, in another decade, they will account for little over a quarter of all payments. The latest statistics from research firm RBR show that, globally, cashless payments rose by 52% between 2011 and 2015, compared with a 33% rise in withdrawals from ATMs.

“Almost every stakeholder in the payments industry wants to move to digital payments”

“I do not believe cash will ever fully disappear, not in our lifetime,” says Omar Haque, chief transformation officer of Worldpay, citing the experience with cheques. But he adds: “Almost every stakeholder involved in the payments industry wants to move more to digital payments.” He cites four key factors which are driving the move away from cash: governments are keen on the traceability that online transactions give them; the fintech companies that are driving innovation want their technology to be used; financial services companies can reduce processing costs; while consumers can use technology to budget and track payments.

THE NEED TO GO CASHLESS

“Many countries are adopting measures to discourage the use of cash and some banks are supporting such moves,” according to the *World payments report*. “This is occurring in the wake of the increase in the use of cash and the costs associated with it.” It estimates that the cost of using cash, which includes security, transport and fees associated with banking, increased by 30% in the decade to 2012 and now accounts for roughly half the costs associated with carrying out any retail transaction. “The increase in online transactions and adoption of e-commerce, changing consumer preferences, the high cost associated with cash and the need to curb the shadow economy are driving the need to go cashless.”

Technology is the key factor enabling the shift away from cash. Contactless cards, which use Near Field Communication (NFC) technology, allow users to make

their underground journey to work and pick up a coffee with just a tap of their card. In the UK alone, about half of all cards can be used for contactless payments, according to Payments UK, and it expects this to grow as more retailers add this facility to their terminals.

The success of these contactless cards could be hindering the adoption of mobile payments via technologies such as Google Wallet or Apple Pay, which are usually linked to your credit or debit card. Worldpay says in its *Global payments report* that contactless cards, a lack of merchants with the technology to accept mobile payments, and the fact that only the newest smartphones support them, has hindered growth. It expects the ‘tipping point’ for this technology to be reached by 2020 as more merchants sign up, consumers update their mobiles and online retailers start linking to the technology.

YOUNGSTERS PREFER CONTACTLESS

The younger generation is a particularly enthusiastic adopter of contactless technology, whether by mobile or card. A July 2016 YouGov poll finds that 63% of millennials, aged 18–34, are likely to use a mobile payment method in the future compared to 51% of Generation Xers (aged 35–54) and 33% of baby boomers (aged 55 plus).

“Mobile wallets will increasingly come with value-adding services, including additional transaction information within the payment app, budgeting features and integrated loyalty schemes, which will make them more attractive to consumers,” says the Worldpay report. Omar adds that there has been an explosive growth of contactless in the last two years, but it was preceded by eight years of anticipation before all the pieces were in place. “Contactless payments are fast and convenient,” he explains. “But they have been one of the slowest overnight successes.”

“Contactless payments have been one of the slowest overnight successes”

Mobile technologies are having a dramatic impact on emerging and less developed economies where access to banks and their services is limited but mobile phones are widely used. In China, Alipay, which was launched in 2004 by Alibaba – the country’s dominant internet site – has become so popular that it now accounts for 44% of global eWallet spend, and is on course to rise to 60%, according to Worldpay’s survey, fuelled by the relatively low use of credit and debit cards, China’s rapid economic growth and the fact that it can be used for a host of different transactions online, and between friends.

In Africa, a much-cited example is M-Pesa, which was established in 2007 by Vodafone and Safaricom in Kenya to allow users to carry out basic banking activities, such as deposits and withdrawals, and to make payments by mobile phone. It has signed up 17 million subscribers in its first five years. Similar systems have been used in other markets but, as Bernardo Batiz-Lazo, professor



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of business history and bank management at Bangor University, says, these have not been all been successful.

“The challenges for mobile money and e-wallets are not fancy technology but convincing consumers of their adoption”, Bernardo writes in *The book of payments*, which looks at the history of cash. “These innovations sit at the intersection of finance and telecommunications and so face regulations from both. On top of that, India and other countries in Asia and Latin America have a significant number of transactions that take place outside the formal financial sector and typically, an overregulated telecommunications sector.” Non-formal transactions, such as cash payments or payments in kind, still dominate in large parts of these communities, partly because of a lack of financial infrastructure but also to avoid tax and official scrutiny of financial transactions – the Indian government’s decision to abolish Rs500 and Rs1,000 notes was aimed at bringing more of the economy under official control. As Bernardo says: “Those at the ‘bottom of the pyramid’ are fearful of and distrust established financial institutions as well as government attempts to increase the tax base.”

NO CURE FOR ALL ILLS

That distrust means going cashless is not necessarily the cure to the ills of the shadow economy. In its report *Cash, freedom and crime* Deutsche Bank says: “A high share of cash in total payments does not always indicate a large shadow sector: Germany and Austria are cash-intensive countries with relatively small shadow economies. In Sweden, cash payments have become rare but the country still has a mid-sized shadow economy. Other parameters such as the tax level and the quality of public institutions, the tax morale and the level of per capita income drive the size of the shadow economy.”

Nor does going cashless reduce crime: it simply shifts it elsewhere. While burglaries and bank robberies have fallen in Sweden, electronic fraud has increased, according to Deutsche Bank. Omar does not think that contactless payments are necessarily riskier than other forms of payment. “The risk has to be appropriate to the

transaction,” he explains. Few people would use a card, whether contactless or not, for a major purchase such as a car while the limits which are generally imposed on cashless transactions, and the fact that they can quickly be cancelled if lost or stolen, means the risk of financial loss is relatively low.

The risks are, however, likely to grow as mobile and online payments rise in popularity and criminals become more sophisticated. Tesco Bank blamed “a systematic, sophisticated attack” for the security breaches which affected 20,000 of its customers in 2016. Regulators are demanding greater attention to security. Last June, the Bank for International Settlements released its first set of internationally agreed guidelines for the financial industry, which it said had been “compiled against the backdrop of a rising number of cyber attacks against the financial sector and in a context where attacks are becoming increasingly sophisticated.” The rising incidence of attacks such as the Tesco hacking is likely to increase awareness of the risks of going cashless.

SECTOR IMPLICATIONS

Banks and other financial services firms are having to adapt quickly to ensure that they are not bypassed in the shift away from cash and traditional payment technologies. The advent of blockchain technologies, such as the virtual currency bitcoin, means that they can be leapfrogged as businesses and consumers transact directly with each other. Already, several leading investment banks are developing their own payment systems based on blockchain, removing the need for payments to pass through the conventional banking system. And many of the new wave of mobile payment systems used by consumers do not pass through the banking system, relying instead on telecoms or other infrastructure providers.

Financial services firms must adapt quickly so they are not bypassed in the shift from cash

In a presentation on the future of financial services, issued two years ago, the World Economic Forum said that this is likely to mean financial institutions suffer a reduction in their control over their customer relationships; to deal with this, they will need to adopt more sophisticated techniques of targeting and servicing their customers, and to be more proactive in their relationships with merchants and other users of their services.

But Bernardo cautions that the dream of a cashless society is unlikely to materialise any time soon. “There is more innovative technology looking for a market than consumers looking for alternative ways to pay. And there is nothing wrong with existing forms of payment – they, and cash in particular, work well in most countries, for most consumers, 99% of the time.” As Omar suggests, advocates of an entirely cashless world may need to wait for a slow overnight success. ●

Tim Hughes, Chartered MCSI, speeds along the Thames every month to save everyone from dog walkers to distressed naturalists

◆ LORA BENSON

Combining City and coast

Juggling a career in the City with a “fascination with boats and the sea” has been easy for Tim Hughes, Chartered MCSI, thanks to his volunteer duties with the Chiswick RNLi lifeboat crew in London. “I don’t have to leave the city every weekend to get on the water,” says Tim, who runs his own specialist financial services compliance boutique in London, Ionstar, focusing on asset management, hedge funds and the brokerage world.

“In my time with the crew, I’ve been involved in a full range of incidents: body recovery, CPR, phantom searches, wet dog walkers and a naturalist stuck on Chiswick Eyot after the tide came in,” he says.

RISKY ENVIRONMENT

The crew is ready to launch within 90 seconds of a call from the UK Coastguard and responds several hundred times per year to emergencies anywhere between Richmond half-tide lock and Battersea. The minimum crew is three but ideally four, which can make a big difference with a serious or multiple-casualty situation, or tricky casualty extraction.

The crew operates in an inherently risky environment around fast-moving water, in a powerful, fast lifeboat. “The people we are tasked to help are not always in a good place and often in distress, whether through alcohol, drugs or mental illness,” says Tim. “They can be a danger to themselves as well as to us. To mitigate these risks, the ongoing training focuses on safest best practice, learning from prior incidents and situational awareness to dynamically risk assess our environment.”

Perhaps surprisingly, dog walkers represent the highest risk group. The crew frequently helps people who have got themselves into trouble trying to assist their dogs. “The dogs are almost always fine, but the experience can be harrowing and potentially life-threatening for the caller,” says Tim.

Tim joined the crew in 2013 and undertook a series of orientation days on sequential weekends. “After a dozen or so shifts as provisional crew and passing the theory test, I was a qualified 3rd seat (2nd seat is the mechanic/navigator and 1st seat or helm is in charge and drives the boat),” says Tim.

“In 2014 I did the lifeboat’s own three-day casualty carer course at Tower RNLi Lifeboat Station by Waterloo Bridge and an additional five-day crew course at the



charity’s headquarters in Poole. This involved storm and capsizе simulations in the sea survival centre, hands on experience in all-weather lifeboats and the use of flares.”

Tim’s commitment as a volunteer is between two and four shifts per month, each being 12 hours long. Day shifts run from 7am to 7pm and night shifts from 7pm to 7am.

He also volunteers with the education team, run by the RNLi office. As part of this, each summer he speaks to over 200 children in his local area about beach safety.

“You must be committed and put time in, but I derive a sense of satisfaction from the role”

There is a fun but serious side to Tim’s volunteering: “I get to play with boats and spend time afloat in London. Night-time passages to central London to refuel are quite magical and I feel privileged to be able to see such a different side of the city. You must be committed and put the time in, but I derive a great sense of satisfaction from the role – even after a string of shifts with no service calls – of a job well done.” ●

➤ Contact lora.benson@cisi.org if you have a hobby you think will interest other CISI members. You will receive a £25 voucher as a ‘thank you’ if we publish your story.

Craig Palfrey CFP™ Chartered MCSI helps his client plan for his dream of working less, earning more and retiring early, through judicious insurance and pension planning and use of ISAs

◆ CRAIG PALFREY

PLANNING FOR AN EARLY RETIREMENT

THE BRIEF

Jason wants to retire early, at the age of 50, with his mortgage paid off and his dental practice at a point where it can be easily sold. For the lifestyle he wants to share with his wife at retirement, he needs a plan that will provide £3,500 per month. This means that he will need to increase his income, while still paying for private education for his two children, keeping up with his mortgage payments and the other expenses associated with running his business. He also wants to reduce his current working week to three days so he can enjoy time with his wife and two children. A tall order!

Jason, a 40-year-old dentist, was feeling the pressure of running his dental practice and having to deal with the issues that go with it – such as recruitment and cost control. His practice had 60% NHS clients and 40% private. Jason has to support his wife, Lisa, and two young children. He enjoys his family time and can often be found at the local sports grounds coaching football and rugby. He was at the point where he was thinking of walking away, selling his business and going to work for someone else, which he envisaged would free up the extra time he wanted to spend with his young family. He was paying private school fees of £7,800 per annum per child, which was escalating at 5% per annum. On top of this, he paid £1,300 per month in mortgage payments and had a business loan, used to purchase dental equipment, at a cost of £2,875 per annum. In doing the analysis, Jason needed to increase his income by £2,800 per month.

People have a habit of not thinking about what would happen in the event of death

Jason's accountant, Lewis Ballard, helped him work out the business 'ideal', which was to have a larger percentage of income from fee-paying clients, instead of NHS clients. This would provide greater predictability

of income and value to his business so that the dental practice could be sold as a going concern when the time was right.

When Jason came to see me at Penguin Wealth, I guided him through a structured process to discover exactly what he wanted, and work out a plan to achieve this.

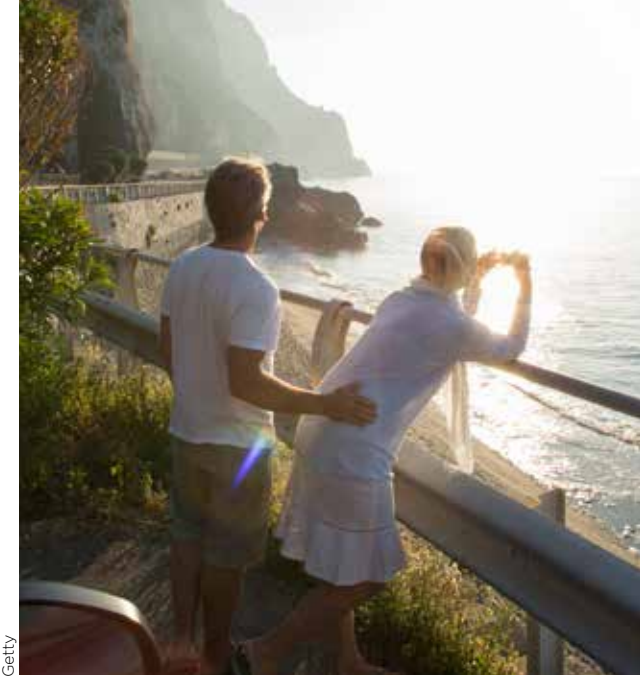
We began developing a financial plan to help Jason fulfil his personal and business goals. We needed to plan for Jason to retire at age 50, following the sale of his business. So we needed to establish whether he could afford to retire on the level of income he wanted and whether the business was in a suitable position to be easily sold.

My major concern was for the family security. Jason had nothing in place to provide his family with any financial security apart from the death-in-service benefits provided by his NHS work. This needed rectifying as a priority. Many people who focus on the future can have a habit of not thinking about what would happen in the event of illness or death.

WHAT WE DID

After going through our structured planning process we arrived at the key objectives for Jason, his wife Lisa and two children, aged nine and 12. His ideal is to be able to retire at 50, to lead a comfortable life and for him and his wife to go travelling in their campervan – which they love. In the shorter term they want to work towards Jason working a three-day week so that they can enjoy family now as well as in the future. They also want to ensure that their children have been privately educated as this is important to them. The financial objective for age 50 is to have an income of £3,500 per month. The mortgage will be paid off by then and we planned the school fees into the cashflow to ensure they can be paid as they arise. It is useful that the youngest will reach 18 as Jason reaches 50 and retires!

We went away and did some maths, which included taking realistic business projections from the accountant. The financial plan showed that they need the business, and the property it is in, to sell for £800,000 when Jason is 50 to make sure that they



Getty

don't run out of money during retirement. The business projections suggested this would be achievable – making some assumptions for inflation, increases in property price and business growth, which were all agreed with Jason and the accountants. We also looked at the couple's pension situation. Jason will accrue NHS pension benefits on top of a personal pension currently valued at £68,000 while his wife, who works in the practice, also has a personal pension of £48,000 to which the business had been contributing £600 per month.

We arranged for pension contributions for Lisa to be doubled, with ad-hoc lump sum contributions to be made as and when cashflow allows it. We identified that they were under-insured should something happen to one or both of them and, on the assumption that the business value would be lost without them, we arranged relevant life insurance to protect their young family and ensure their standard of living could be maintained. Jason was insured for around £1m and Lisa £400,000. We then arranged a locum insurance policy so that, should Jason not be able to practise dentistry due to illness or injury, the insurance would

CRAIG PALFREY BIOGRAPHY

Craig is a CERTIFIED FINANCIAL PLANNER™ professional, a Chartered Wealth Manager and a managing partner at Accredited Financial Planning™ firm Penguin Wealth, in Cardiff. Penguin Wealth has recently won an Unbiased award for Estate Planning Adviser of the Year.

Craig enjoys presenting at seminars as he is passionate about sharing his knowledge. He is an international speaker on financial planning and has written a book on the subject: *The wealth secret: create, build and protect your future the Penguin way.*

cover the costs of a locum dentist and not affect the couple's drawing from the business.

One of the key things we did was put the life insurance and the pension death benefits into a series of family trusts. This gives protection so that, should something happen to either of them, the money can be controlled on behalf of their young children, enabling them to be raised in the lifestyle they want for them, including private schooling. It also protects the money from potentially exiting the family should the surviving partner go on to remarry, as well as saving 40% on inheritance tax.

The key to financial planning is to continue to review the numbers on a regular basis

Jason and Lisa have used some of their Individual Savings Account allowances over the past few years to build additional savings. This will continue to be reviewed each year to see if they can afford to use this valuable tax allowance as and when their finances allow. The key to the financial planning is to continue to review the plan and the numbers on a regular basis to ensure everything stays on track over the years, especially when Jason and Lisa get closer to 50. ●

WHAT HAPPENED NEXT

By working with me to develop this financial plan, Jason is now able to work four days a week and is looking towards a three-day week. He has put an office manager in place to run the dental practice and is in the process of buying another practice and putting people in place to manage it. With the help of coaching from his accountant and from us, Jason has increased the ratio of private clients from 40% to 55%, and rising. He is now enthusiastic about working in and growing the business because he can see the light at the end of the tunnel – the fulfilment of his ambition to retire at 50 with the lifestyle he and Lisa desire.

TAKEAWAYS:

1. **Increase Lisa's pension.**
2. **Protect young family in the event of Jason's demise, using wills and trusts.**
3. **Put Lasting Powers of Attorney in place to ensure the couple's wishes are carried out in any event.**
4. **Put pensions onto a platform and create a coherent investment strategy to ensure everything is cost effective.**
5. **Make use of ISA allowances.**
6. **Review the plan regularly to ensure everything stays on track.**

Connecting with clients emotionally

Ian Painter CFP™ Chartered FCSI, managing director of Affinity Integrated Wealth Management, talks about balancing emotions and budgets

When did you become an accredited firm?

December 2014. We were already chartered and we felt being accredited added kudos and differentiated us from other financial planning firms.

What has accredited firm status brought to your firm and why should others seek to become accredited firms?

It is a positive differentiator in the marketplace. But tangible benefits are hard to quantify from a client's perspective.

What sort of business is Affinity Integrated Wealth Management and what services does it offer? What's your USP?

We offer at or near retirement planning services to our clients. We believe we are one of the few offering true, comprehensive financial planning in Kent. By that, I mean not just cashflow planning but also in-depth emotional discussions – I am a qualified life coach and master neuro-linguistic programming (NLP) practitioner. This helps me to communicate with clients in different ways and to understand how best we should communicate with them – different people have different communication and learning styles; for example, some are visual and some are kinetic. If I find that our communications are not quite hitting the mark, I will change tack and try using a different methodology, perhaps a chart or diagram instead of a table of figures.

I am a qualified life coach and master neuro-linguistic programming practitioner

We will also mix up our language rather than sticking to one style. For example, we may ask a client how they feel about something, how something sounds to them, what something looks like – we make sure our communication methods, whenever possible, match their preferred style or are provided in multiple ways. I am a very visual person; I love big images, coloured charts and the like, but many of our clients are engineers and they much

prefer lots of tables of figures backed up with lots of facts. Having clear communications also means that we can encourage our clients to take the recommended actions quicker and with greater understanding on their part than perhaps may otherwise be the case.

Above all else, for me, the NLP helps me understand people better, to connect with them on a deeper level and to understand that any frustrations or concerns they may have are very genuine to them, no matter how irrelevant they may seem. It encourages more listening than talking. My NLP and life coaching training also help me with techniques for challenging and questioning clients without appearing confrontational. The same applies for members of our team, too. It is never perfect, of course, but I am proud of the way in which we have integrated all my learnings into the business.

How did you get into financial planning?

Back in the 1980s personal pensions were launched, and I was effectively sold one along with some life cover and a



savings plan. I had already held my own very small stock trading account and had taken part in the public offerings of the time and held some unit trusts. I think it was my interest in money and my desire to make some more of it that encouraged my adviser at the time to recruit me into a direct sales role. I went from a good salary working in London to being commission-only overnight. After around two years of having hugely variable earnings I decided it was time to take on a more stable role, so I joined the independent financial advice arm of Nationwide Building Society, which was a different kettle of fish altogether. The requirement for more exams and greater professionalism really started to take off then, and Nationwide gave the support and platform to do this, as well as a more stable salary and benefits package. I took the case study assessment and became a CERTIFIED FINANCIAL PLANNER™ professional. I found going through this process to be hugely beneficial and I realised just what financial planning should look like for my clients. I've done it that way ever since.

The NLP helps me understand people better; to connect with them on a deeper level

What's the best thing about being at a financial planning firm?

I love having a deep connection with clients. In my early financial planning days a couple came to see me saying they wanted better investment performance. One had had a heart attack and a stroke and the other had multiple sclerosis. Understandably, they were worried that if something happened to one of them, the other could struggle financially, hence the need for better performance. I told them that we did financial planning and it was not about chasing better returns. When we went through the full financial planning process I told them that they would be financially secure for the rest of their lives, no matter what happened, and in fact they didn't need any more growth to achieve their lifetime goals. Quite the opposite, they just needed to protect what they already had. I felt that I had made a real difference to their lives that day. They are both still doing well and enjoying life as best they can.

What do you think about the IFP/CISI merger?

I think the jury is still out. However, there is lots going on behind the scenes and notably the continuing professional development events are vastly improved on IFP days. This is the biggest change. But members need to attend these events to see tangible improvements. If they don't go, they won't see the positive change for themselves.

How have you been affected by the FSCS levy?

It's almost criminal looking at how it's funded. The basis of the good paying large sums for the rotten apples is just not fair.

What does a typical day look like?

I participate in the Strategic Coach Program – a coaching programme for entrepreneurs that covers



Ian Painter CFP™ Chartered FCSI

Ian has been a financial planner for nearly 30 years, and is independently ranked in the top 250 independent financial advisers in the country (VouchedFor spring 2016). He specialises in comprehensive financial planning for the at or near retirement market.

He is also a director of another advisory business and is on the National IFP Forum Committee and the management committee of the CISI's South East branch.

Ian has helped develop many unique strategies and processes to enhance the efficient running of the business. He helped the company achieve CISI Accredited Firm™ status, and has also helped it grow, completing three separate practice buyouts to date.

He is always looking for further opportunities to add value and experience, and has attended numerous financial planning, investment and coaching courses both in the UK and abroad, which enables him to bring an international perspective to financial planning in the UK. He holds a number of specialist professional coaching qualifications.

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efficient time management; having a clear business vision; knowing your market; packaging your services; expanding your thinking as well as your business; all sorts of issues that may arise. Following this method, I group certain tasks together on certain days to make my work more productive. I have focus days where I have client meetings and concentrate on client work. We have weekly team meetings to keep everyone up to date with what's coming up. We also have a separate pensions business, so some of my time is spent attending to that. Notably, we do not really market ourselves externally; all our referrals are via word of mouth. Marketing is something that we need to be better at.

What do you think about Financial Planning Week?

I have not previously taken part because I thought that I had to offer full financial plans for free. I do not offer this amount of time or work for nothing but I am happy to get involved in other ways, like providing case studies.

What are your key tips for other planners?

- Take the financial planning case study and become a CFP professional – it will change your life.
- Never stop learning – go on as many courses as possible.
- Attend the annual conference – learn lots and meet great people.
- Take time to consider what you offer as a business and think through how you will deliver that to clients. ●



Jonathan consults management after reading a note of a conversation about tax avoidance. He is told it is none of his business and that, in any case, the transaction has been approved. What should he do?

MARGINALLY EVASIVE

Jonathan works for an investment bank which is particularly noted for producing innovative financial solutions for its clients, and adopts a similar approach for its own internal tax planning. These solutions often employ aggressive tax planning, although the firm is careful to ensure that it obtains appropriate legal and accounting opinions to support its schemes. Because of the amounts of money involved and the fees that it charges, the bank employs leading experts in their fields to issue these opinions.

The worlds of tax avoidance and tax evasion seem to be coming ever closer together

Jonathan is not directly involved in the structuring of these deals but, as a senior member of the bank's chief accountant's department, he is aware of the transactions and frequently sees the papers on which they are based, without being a part of the decision-making chain. Conscious that the worlds of tax avoidance and tax evasion seem to be coming ever

closer together, at least in the eyes of the public and, it would appear, the revenue authorities, Jonathan takes a close interest in what his firm is offering its clients and the potential loss of tax revenue to the country where he lives.

While reading the papers connected with a recently completed transaction, which contain an opinion from a leading tax lawyer, his eye is caught by a note stapled to it headed: "Conversation between H__ and R__". Jonathan knows the name to be a leading tax barrister and the note is signed by one of the firm's managing directors. Jonathan reads the note and is particularly struck by the words: "Although H__ reiterated that he had concluded that the structure proposed does comply with all existing legislation, he warned that he considered it to be at the very margin of both legal and particularly social acceptability. Additionally, he added that, given the media focus on tax evasion (his words), we might wish to consider whether we really want to be involved in a scheme which has no obvious economic benefit to this country, and which will deprive it of a significant amount of revenue."

Knowing that the transaction has already taken place, Jonathan wonders whether anyone else in the firm, and if so who, has been made aware of the telephone conversation, and how they have convinced themselves that it is a good idea in the face of the comments from counsel.

Jonathan considers what, if anything, he should do and who he might discuss his concerns with. He decides to approach his manager in the first instance, but when Jonathan voices his concerns during their next meeting, his manager tells him that it is a done deal, and he will simply stir up a hornet's nest if he tries to take the matter further. Not satisfied with this response, Jonathan decides that he will try to see R__, who has written the note, and he manages to make an appointment to do so for a few days later.

Although R__ agrees to see Jonathan, when they meet he makes it clear that he considers the matter has nothing to do with Jonathan and he seems not at all pleased that Jonathan has read the note of his conversation with counsel. However, he does say that the matter has been extensively discussed at the bank's reputation committee, which has 'approved' the transaction.

At this point Jonathan feels that he is probably putting his career in jeopardy if he takes the matter any further. But when watching the news on television that evening, the latest figures are announced for government borrowing and they are at an even higher figure than expected, citing *inter alia* lower than expected tax receipts. Jonathan feels that what he has discovered at work is exactly the type of

activity that should be prevented. Although it might now be too late to close that particular stable door, surely he could and should do something to prevent a recurrence? Accordingly, he determines four possible actions.

Jonathan feels what he has discovered at work is the type of activity that should be prevented

WHAT SHOULD JONATHAN DO?

- Contact the BBC to 'tip them off' about his bank continuing to offer aggressive tax planning to clients and undertaking similarly questionable schemes for its own benefit.
- Contact H__, the bank's counsel, to confirm whether he had the conversation with R__ and whether the content of the note is accurate.
- Contact the bank's Speak Up line to report his concerns about the bank providing tax solutions that appear to be unacceptable and about his treatment by R__ when he tries to discuss his concerns with him.
- Seek to discuss his concerns with the senior independent director. ●



WHAT WOULD YOU ADVISE?

Visit cisi.org/marginallyevasive and let us know your favoured option. The results of the survey and the opinion of CISI will be published in the Q3 print edition of *The Review*.

CREATIVE ACCOUNTING: THE VERDICT

Readers were asked to decide on a course of action when faced with a request to amend the wording of an invoice from a supplier, Liberate, to enable them to claim grant monies, which would not otherwise have been available. Readers were offered four potential courses of action:

A. Accept what they have been told without comment and amend the invoice as requested.

B. Tell Liberate that they cannot be a party to any form of sharp practice and terminate their contract immediately. (5 responses)

C. Accept that it is in their interests to try to resolve the situation with Liberate and encourage them to discuss the situation with the grant-awarding body. (32 responses)

D. Report the matter directly to the grant-awarding body, including a calculation of the amount of money that they believe Liberate may have wrongly claimed. (16 responses)

No one felt that having been alerted to the fact that all was possibly not as it should be, that it would be reasonable to carry on regardless.

However, one wonders whether, had the usual administrator been at work, the matter would have ever seen the light of day.

So, having decided that some form of action is necessary, the question is how one should approach the matter. Here, most readers felt that the middle course of action, option C, would be most appropriate, with which we do not disagree. Even so, it would be

sensible to ensure that this is followed up, so that having taken the initial step, the matter is not then allowed simply to 'slip off the radar'.

Response B attracted several responses, but the weakness of this course of action is that it is a rather hostile response to a situation where, at this point, you do not have a full understanding of what may be involved.

Response D was the second most popular, but as with response B, you appear to be pre-judging the situation since you do not yet have the information required to make the necessary calculation.

It really is a step up from the course of action in response B and so may be considered unduly hostile as a first step.

RUSSIAN FINANCIAL MARKETS – a post-trade success story

Behind the headlines about Russia – sabre-rattling, expansionism, flawed economy, oligarchs and money laundering – lies an unsung professional community in the securities and investment industry, whose achievements other markets would do well to emulate

◆ DANNY CORRIGAN

The Russian wholesale financial markets, and the securities markets in particular, are among the more developed in the world, having undergone a modernisation programme of late built on the solid foundations laid in the mid-1990s. That was when the Russian authorities engaged with partners overseas to launch a then ‘state of the art’ cross-asset trading and settlement system adopting best international standards and applying these to the Russian domestic and, in turn, cross-border markets.

This development process has continued over the past decade and has resulted in the merger of the two main

stock exchanges, MICEX and RTS, to form the Moscow Exchange (MOEX). Subsidiaries of the Moscow Exchange Group are Russia’s first qualified central counterparty (CCP) clearing house, the National Clearing Centre (NCC), engaged in the central clearing of derivatives, securities, repo and foreign exchange; one settlement depository, the National Securities Depository (NSD); and one registrar.

THE NATIONAL SECURITIES DEPOSITORY

The NSD traces its roots to 1996, when the MICEX Settlement House was incorporated and launched to provide a broad range of securities settlement services, primarily in equities. Trades were settled; that is, securities delivered by sellers from one account at the settlement house against the receipt of payment provided by buyers from another. In parallel, the National Depository Centre (NDC) was formed in 1997 to offer a full range of settlement depository functions, primarily in the government debt markets, and later in corporate, sub-federal and municipal securities.

NSD SETTLEMENT SERVICES DEVELOPMENT

The NSD is working on five projects:

1. Electronic matching: It plans to offer preliminary matching of FOP and DVP instructions, adopt the ‘hold and release’ mechanism and use aliases for securities accounts and sub-accounts.
2. DVP process optimisation: It plans to optimise its collateral management system based on clients’ standing and DVP instructions and select securities and transfers to dedicated sub-accounts for over-the-counter DVP settlement.
3. Record-keeping of investment funds units: To develop the open architecture for primary market transactions and record-keeping of investment funds units.
4. Instruction priority with regard to linked transactions: Currently the NSD allows market participants to prioritise between DVP and FOP by means of a priority code and it plans to extend this to linked transactions and provide asset segregation facilities.
5. Issuer services enhancement: In 2017, the NSD plans to offer multi-currency bond placement to corporate issuers. The Ministry of Finance of the Russian Federation plans to issue government bonds in Chinese renminbi and issue OFZs in Russian rubles to retail investors.

The Russian wholesale financial markets are among the more developed in the world

In 2010, the NSD was formed after the merger of the MICEX Settlement House and the NDC. It was assigned central securities depository (CSD) status by the then regulator of the Russian financial markets, the Federal Financial Markets Service (FFMS), and as Russian CSD law states, this status may only be granted to one organisation. It plays a unique role in the Russian financial markets. In 2013, it launched a trade repository, receiving details of derivatives and repo trades from counterparties in Russia who are mandated to report to the Central Bank of Russia, providing specific and general reports by counterparty.

It is a systemically important settlement depository, trade repository and a nationally important payments system, a non-bank financial institution and a key member of the Moscow Exchange Group, where it is headquartered.



THE NSD'S OPERATIONS

The NSD is the central securities depository for the Russian stock market and in this role acts as the nominee holder of Russian and foreign debt and equities. It provides safekeeping for global certificates and depository receipts for the Russian federal loan bond, known as OFZs, and for most Russian corporate and regional bond issues.

The NSD acts as the head depository and a tax agent for the Ministry of Finance and other bond issuers. It has the capacity to deal with a high volume of instructions and settlements in the continuously traded markets of physical equities and debt listed on MOEX or traded over-the-counter in Russia, or internationally, and settled in the Russian domestic markets.

The two largest international central securities depositories (ICSDs), Euroclear and Clearstream, gained access to the Russian securities post-trade markets by opening accounts with the NSD to enable them to settle debt and equity domestically in Russia. Currently, only CSDs and ICSDs are allowed to open foreign nominee accounts with the NSD. In 2014, the NSD was registered with the US Internal Revenue Service in compliance with Foreign Account Tax Compliance Act (FATCA) requirements. It also meets all the requirements of an 'eligible securities depository' in the US under Rule 17f-7 of the US Investment Company Act of 1940.

In comparison, in Europe several ICSDs and CSDs offer a similar suite of services, such as safekeeping, pre-settlement matching, settlement, management of corporate actions, automated securities lending, tri-party repo and other collateral management services. In the past, most major countries maintained a locally owned CSD partly out of pride – not unlike the desire for many countries to provide a national airline – but also to

maintain a form of governance or control over post-trade in securities issued, and in some cases listed, in their own countries. This particularly applied to the settlement and custody of government debt. Over the past decade, many CSDs have merged into larger post-trade services groups, such as the London Stock Exchange Group, Deutsche Börse Group and Euroclear.

THE NSD'S SETTLEMENT SERVICES

Historically, securities were settled in Russia on a T+0 basis; that is, on the date the trade had taken place. This tight time frame had the advantage of reducing the risk of loss should a trade fail to settle correctly and the payment not be received between the date of trade and settlement in the international markets of T+2 or T+3; that is, two or three days after the trade was concluded. However, dealing on a T+0 basis required buyers to pre-finance their accounts at the settlement depository the day before trading, and sellers to pre-position their stocks or bonds at the settlement house so as to allow for settlement on a 'delivery-versus-payment' (DVP) basis on T+0.

In Russia, as in most other domestic and international markets, there has been a trend to settle trades on T+2 for DVP settlements but on T+0 for 'free of payment' (FOP) settlements. This trend has been accentuated in the Russian cross-border markets where international counterparties contract with Russian-based participants.

The NSD acts as the head depository and a tax agent for the Ministry of Finance

Trades are settled in the currency the shares or debt are issued in – the Russian ruble (RUB) or US dollar. (Many outright purchases and sales of securities denominated in RUB between two Russian counterparties continue to be settled FOP.)

In comparison, in Europe very few outright purchases and sales of securities settle on an FOP basis and most settle DVP on a T+2 basis. However, the repo markets settle on a T+0 or T+1 DVP basis as many trades are driven by the need to finance inventory and soon to be settled new purchases or sales. FOP trades are very rare internationally and most markets do not require pre-financing of purchases or pre-positioning of securities ahead of a sale. ●



About the author

Danny Corrigan is co-chair of TheCityUK Eurasia Market Advisory Group and is a member of the CISI's International Committee. He has extensive experience in the London and Moscow markets, has been a member of a number of CISI exam panels over the years, and is currently a senior adviser to the Astana International Financial Centre on the development of a new exchange for Kazakhstan.

A lesson from the past about predicting the future

If the demise of Equitable Life taught us anything, it's that predicting the future is one thing, but knowing how to respond to it is quite another

✦ ANDREW DAVIS ✦ JOHANNA WARD



There is a thriving industry in trend watching, designed to help companies position themselves 'ahead of the curve'. Mostly, this is simply an exercise in extrapolation: predicting which nascent changes will turn into society-wide phenomena. Occasionally, someone will get their move beautifully timed and wind up in exactly the right place at the right moment, the early proponents of sports utility vehicles being a favourite example of the trendspotter's art. But mostly it proves impossible to turn an awareness of broad trends into concrete actions at the crucial moment – even when the change that is unfolding is plain to everyone who cares to look.

There are few better illustrations of this than the collapse of Equitable Life, one of the most significant financial stories of the past 25 years. Equitable was the world's oldest mutually owned life assurance company, founded in 1762, and was widely used by wealthy professionals to save for their retirement, thanks to its long-term practice of guaranteeing generous annuity rates to policyholders, funded by the investment performance of its life funds. In 1999, Equitable abruptly announced that it could no longer afford these guarantees and went to court to win the right to cut them.

In July 2000, the House of Lords rejected its case and Equitable was effectively done for. Its slow demise unfolded over the following decade.

Equitable Life was undone by several factors, notably its long-standing policy of distributing profits to members rather than retaining a portion of them to guard against future shortfalls. But the biggest factor in its downfall was that it continued to behave in this way even when the forces that would ultimately overwhelm it were becoming visible. Ultimately, Equitable was unable to meet its liabilities because its policyholders' life expectancy rose steadily over a period of several decades, in the process relentlessly increasing the amount of money that Equitable was contractually obliged to pay them.

If something works, we assume it will continue to do so

According to life expectancy tables produced by the government using the cohort methodology, which studies a particular group of the population over a long period of time, men reaching the age of 65 in 1951 could on average expect to live another 12.1 years, while for women reaching 65 that year

the figure was 15.5 years. Those averages edged up slowly until the late 1960s, when the pace of change accelerated, especially among women. In 1971, average life expectancy for a 65-year-old man was 12.9 years and for a woman it was 17.3. In 1981, the averages were 14.1 years and 18.1 years and a decade later – ten years before Equitable ran into the sand – they were 16.1 and 19.6 years for men and women respectively. The trend was becoming clear well before Equitable reached its crisis moment.

How did such a slow-moving adversary ambush it? There are several possible explanations. First, we anchor our assumptions about the future in our experience of the immediate past, which is another way of saying that we all naturally extrapolate. If something works, we assume it will continue to do so. Equally, individuals and organisations always respond more readily to short-term priorities and incentives, such as this year's sales or budget targets, than to changes so gradual that they can remain almost imperceptible for years or even decades. Factors such as these make it especially hard to switch course in the face of slow-moving, long-term change such as demographic shifts. How can we know when the moment

comes to do so when the trend never gives us the trigger?

The lesson of Equitable Life is that it is one thing to identify a long-term trend that will profoundly change the environment over a span of 25 years. It is quite another to identify the right moment to respond with a particular course of action.

Where will big-picture trends have the greatest impact?

With that in mind, several trends in play today, apart from increasing life expectancy, will clearly have a huge impact by the time the CISI reaches its half century. Automation of white-collar professional roles in areas such as accountancy, law and finance (compliance being one area ripe for increased automation in the years ahead) is one, and (putting the immigration debate aside for a moment) competition between countries to attract talented people to fuel the service economies of tomorrow is another.

This much is clear. But where will those big-picture trends have the greatest impact, and how and when should we respond? These are the real questions. ●

CHANGE: REGULATORY UPDATE

2017 has started like a lion. Firms must focus on preparing for the updated Markets in Financial Instruments Directive (MiFID II) in January 2018, but are distracted by making contingency plans for Brexit and the extension of the Senior Managers and Certification Regime next year. The UK regulators are also actively reviewing many sectors from an investor protection and markets perspective, and there are the ongoing priorities of cyber crime and money laundering. A substantial amount of time at board meetings has been spent on regulation over the past few years, but there are signs that the flow of big regulatory changes is slowing at source internationally.

I have selected below some points for firms' management which affect all firms, and some points for specific financial sectors. These points are addressed to senior managers, although compliance officers may also be interested to know what is happening in other sectors.



Christopher Bond, Chartered MCSI, Change editor



Christopher Bond, Chartered MCSI is a senior adviser to the CISI. He has extensive experience in financial regulation, both as a lawyer and as editor of the CISI's well-regarded regulatory magazine, *Change*, which he edited for ten years. He gives presentations on many EU and UK regulatory subjects in the UK and Europe, and writes for a number of regulatory publications. He also supports the CISI's Compliance and European Regulation Forums and advises on *Professional Refresher* modules. He is a commodities derivatives board director and editor of *The International Banker*, the magazine of the Worshipful Company of International Bankers.

Top regulatory developments

1. Preparing for MiFID II

The European Securities and Markets Authority (ESMA) has published more information (questions and answers) on price transparency and markets,¹ including on pre-trade price waivers and the Systematic Internaliser (SI), multilateral trading facilities (MTFs) and Organised Trading Facilities' (OTFs) regimes, which all sell-side firms should study to see if they come into one of these categories, and if so, gain an understanding of the consequences. Although published earlier, the corporate governance management requirements can be easily overlooked.

The FCA has issued another (fourth) consultation² on specialist areas not covered in its previous mainstream ones, such as corporate finance, stock lending and oil market participants. Note also the PRA Policy Statement of October 2016³ on algorithmic trading, including client direct electronic access.

The financial services sector is waiting for the FCA's policy statements on these and hoping that there will be enough time to make the IT, organisational and regulatory changes before the start of MiFID II in January 2018. The deadline for this is 2 July 2017, although the sector would like this earlier. Most of MiFID II is planned to start on 3 January 2018; some parts are later, eg, the

SI regime and the double volume cap on non-regulated market transactions in August and September 2018.

The attitude of the FCA on late compliance may depend on the area – it has emphasised the importance of transaction reporting. The tight timetable has made developing IT programmes for collecting newly required data difficult – to the great benefit of IT service providers.

2. The slow death of the investment analyst

The combination of the unbundling requirements for research and transaction costs of MiFID II (with strong incentives on fund managers to absorb research costs) and the Market Abuse Directive's restrictions on investment research, has already reduced the number of analysts – particularly in investment banks – and resulted in some moving from sell-side firms to buy-side ones or to independent firms. One consequence of this change has been to further disadvantage smaller fund houses already subject to disproportionately high compliance costs. It is reported that some banks are asking for substantial annual payments from fund companies for access to their research platform.

1. <https://www.esma.europa.eu/press-news/esma-news/esma-updates-qas-mifid-ii-transparency-and-market-structure-topics>

2. <https://www.fca.org.uk/publication/consultation/cp16-43.pdf>

3. <http://www.bankofengland.co.uk/pradocuments/publications/ps/2016/ps2916.pdf>

3. Qualifications for wholesale advisers

One lesser-known change introduced by MiFID II is its increased 'knowledge and competence' requirements for wholesale investment advisers. The ESMA guidelines under MiFID II require anyone making personal recommendations to professional or retail clients to have a qualification – a requirement that was dropped in the UK in 2006. There is no grandfathering relief. This means that all sell-side advisers (but not discretionary managers) such as corporate analysts, corporate brokers, salesmen to professional clients and corporate finance advisers; and buy-side advisers, such as to funds and portfolios, will need qualifications. However, 'qualifications' are defined to extend to training and testing as well as exams. In its consultation paper the FCA proposes to give firms the choice over these so long as they could satisfactorily explain them. The policy statement is due in June. The start date is 3 January 2018 so there is little time. The CISI is to offer compliant exams for employers. The extension of the Senior Managers Regime (see article 6 below) to non-banks in 2018 will mean that the firm's annual 'fitness and competence' assessments will need to take this separate requirement into account.

4. Asset managers under the regulatory microscope

The FCA's reports into asset management are well known. It is now demanding large changes to business models flowing from its analysis that the market is uncompetitive on fees, unlike some other sectors. The FCA wants an 'all-in' fee that includes transaction costs. Those in favour argue that investors should be able to compare total costs before choosing and that this also addresses churning; opponents argue it will encourage stasis in portfolios and closet tracking. There is also pressure to adopt single pricing (without separate buying and selling prices) which will affect 'box profits'. This is in addition to the MiFID

requirement to provide full disclosure of costs and for managers to fund research costs as described in the previous article.

5. Brexit planning

The only clear fact is that the Prime Minister has now given formal notice to the EU of the UK's withdrawal. The two-year notice period for negotiating the UK's membership and the future relationship has started. There is a high-level description of what the UK wants in the Government's White Paper, but so far the reaction of the other EU members⁴ and of the Commission is fragmentary, such as the Commission's working paper on harmonising the 'equivalence' provisions of different EU directives, and making them tougher, eg, on 'equivalent' countries following the EU as it develops its rules. The UK Government wants a bespoke agreement based on mutual recognition for which there is no precedent and which will need time to agree.

So, firms must now decide whether (a) they are affected, and (b) if they are, whether to wait and see what agreement there is or (c) whether they cannot wait because there is no certainty in such an agreement and it may take a year or two to obtain the appropriate licences to set up inside the EU. Many EU states are welcoming UK-based firms but on terms that the firm has a real presence in the state, and the EU office is not 'paper' simply making back-to-back transactions with the UK firm. Third country banks in particular that have Europe, Middle East and Africa (EMEA) offices in London, may need to action their contingency plans this year before knowing the outcome of the negotiations. Others, such as in asset management, may have more time to act if they already have other EU subsidiaries and funds with suitable licences. The UK regulators have a potential conflict of interest – they want firms to be prepared but do not want to encourage them to leave.



4. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589191/The_United_Kingdoms_exit_from_and_partnership_with_the_EU_Web.pdf

6. Non-banks prepare for the Senior Managers and Certification Regime

The regime which currently applies to banks will cover all other types of firm at some time during 2018. This gives individuals responsibility to the regulators, and outsources to firms the role of approving less senior staff (currently Approved Persons) and of annually checking their knowledge and competence. The FCA plans to issue a consultation paper before the end of June. Banks spent many months preparing for the regime. Key documents include the overall Responsibilities Plan, the individual senior manager responsibility statements based upon it, the handover certificates from existing to new managers, the giving and obtaining of detailed references from previous employers, maintaining a breaches register and reporting on it to regulators. Fortunately a few of these later requirements will not apply to non-banks.

The FCA has said that it will apply the regime 'proportionately' to the 50,000 plus non-banks. The planned consultation paper will show how it plans to do this. One possible approach is to divide firms between 'complex' and 'non-complex' categories, with the first having to carry out the full range, and the second a reduced number. Informal comments from the FCA indicate that it expects managers to accept personal responsibility but may not expect small firms to spend a lot of time mapping responsibilities. However, larger or even medium-sized ones are likely to need to do so, and all senior managers should start thinking about how it will affect them personally. Enforcement cases against bank managers for problems in their areas are currently absent, and practical enforcement PRA and FCA policies are unpublished.

7. Regulatory reform signals from the US

A mixed picture is emerging on President Trump's 'bonfire of regulations'. He has commissioned a review of Dodd-Frank reforms, announced his 'two out' for 'one in' policy, and appointed bank-friendly advisers, including the new chairman of the Securities and Exchange Commission (SEC). In contrast most of the Dodd-Frank reforms are well advanced, such as in central clearing and regulated trading (and some say irreversible). Rule change is the domain of the SEC and Commodity Futures Trading Commission (CFTC), not the President, and some firms (particularly in derivatives) and politicians – even Republicans – like the reforms. So, no big immediate changes, although the big banks are hopeful that some of the constraints on them (such as trading) will be reduced or even removed.

8. Change in the OTC derivatives markets

The media focus on preparing for MiFID II has covered big regulatory changes in trading and clearing over-the-counter (OTC) derivatives under both the European Market Infrastructure Regulation (EMIR) and MiFID II. Under EMIR, non-central counterparty (CCP) cleared transactions executed OTC between financial counterparties and larger non-financial ones have needed to pay variation margin since 1 March 2017, doing away with credit lines. Preparing for the change means changing documentation (particularly the Credit Support Annex with numbers some estimate at 200,000) as well as making arrangements for providing variation margin (and initial margin, depending on group size) –

sometimes daily. The logic is clear – if the new documentation is not in place, there should be no new trades. However, delays in new counterparty documentation (the International Swaps and Derivatives Association suggests that only 15% of counterparties have updated documents) have resulted in the US regulator delaying the start until 1 September 2017, and the International Organization of Securities Commissions (IOSCO)/ESMA issuing guidelines to regulators to focus on the biggest and riskiest market exposures. Other firms need to show good faith efforts to comply. There are also often difficulties in categorising counterparties (which depends upon group size and nature of activity), and some providers may be able to assist firms here.

9. Regulators face up to technical challenges

The speed of change in firms' adoption of new technology is fast. Existing firms are facing multiple threats – both from new firms developing online services and existing ones adopting them first. In private wealth management, the ever-expanding roles of platform services, such as robo-advice and model portfolios, are disrupting business models. In retail banking, artificial intelligence and the use of mobile devices threaten firms with physical branches. In payment systems the entry of new types of business such as Amazon and Google could take away a key part of traditional banking, even extending to loans. In investment clearing and in insurance the use of blockchain could make central clearing counterparties obsolete just when the regulators are empowering them.

So how are regulators reacting to these developments? They welcome their ability to break down the barriers to entry to some services such as asset management and payments, reducing the cost to investors; they fear the systemic risk and lack of regulator control they produce. Above all the rule-making system from global bodies such as Basel (for banks) and IOSCO (for securities) which cascades down to individual regulators, is far too slow to do other than react a long time after the technology has changed the



market and firms' business models. After the 2008 crisis, markets and firms will provide more transparency and 'big data' and artificial intelligence should help them understand it; but more forward-looking co-operation and information sharing is needed to control the new risks which could lead to a global crisis, such as the lack of time to deal with a failing market, clearer or bank in the full glare of social media.

10. How should Financial Services Compensation Fund levies be calculated?

The fees and levies that the Financial Ombudsman Service (FOS) and FSCS impose are a high and increasing cost of doing business for all firms, particularly retail firms, for example, in life and pensions claims from self-invested personal pensions (SIPPs) and high risk non-standard assets. Which is why the possibility of the costs being risk weighted towards the riskiest business models is an important discussion. On the one hand, it may make some small advice firms uneconomic, and on the other, it addresses the argument that the good pays for the bad and brings it into line with insurance practice.

11. The Financial Ombudsman under pressure

The FOS is always controversial, trying to hold the balance between retail investors and firms. Recent questions include challenges on scope (should mini bond holders be covered?); persuading firms to accept its awards against them (the FCA has only taken action against five firms that ignored them although 195 were referred to it – we do not know how many firms paid up as a result of the reference alone). Latest figures show that the FOS upheld the adviser in 40% of complaints; and that the FOS commented on suitability: "One of the key things is to resist the temptation to include everything, and to make sure that it is as tailored as possible to the individual and their circumstances, as well as to keep an eye on their length, because this does risk people not reading them." (Indeed, the FCA is proposing to change its Conduct Rules to address "over disclosure".)



Blockchain and its use in financial settlements and transactions

Daniel Broby, Chartered FCSI, director, Centre for Financial Regulation and Innovation, University of Strathclyde
 Greg Paul, doctoral researcher, Strathclyde University Electrical and Electronic Engineering Department 53

Hypothesis: risk, like mass and energy, can neither be created nor destroyed. Discuss

[submitted 27 February 2017]
 Dr Quintin Rayer, Chartered FCSI, Chartered Wealth Manager, DPhil, SIPC, head of research, P1 Investment Management
 Will Dickson, Chartered MCSI, Chartered Wealth Manager, BSc (Hons), MSc, head of portfolio management, P1 Investment Management 56

New horizons on the great Silk Road

Dr Oleg Preksin, vice president of the Association of Russian Banks 59

Informal learning during periods of uncertainty

An outline of a research project by two major universities on continuing professional development 62

Fintech and the cyber threat

London's new National Cyber Security Centre (NCSC) was launched in February to great fanfare and with a major cast list: one queen, two Secretaries of State, the nation's cyber elite, and a Samsung electronic doll. Her Majesty was presented with the doll by the Centre's technical director, Dr Ian Levy, to aid a demonstration of how the 'internet of things' – including such deceptively benign objects as children's toys (and fridges, and lightbulbs, and so on) – can form part of the cyber threat to our national security and livelihoods. By the relatively easy process of hacking into the doll's 'brain', Dr Levy's team was able to take control of a model house inside the centre, heating, lighting, communications, security and all.

Just before the launch, Professor Richard Benham, chairman of the National Cyber Management Centre, had told the BBC that, in his opinion, "a major bank will fail in 2017" because of cyber security breaches. He expanded on this to predict a run on a bank this year because of customers losing confidence following a cyber attack, and suggested that more regulation may be needed. According to him, the UK banking industry is "effectively unregulated on cyber security".

This is a world of obfuscation and hyperbole, but Professor Benham's comments struck a chord. Dr Andrew Hilton, director of the Centre for the Study of Financial Innovation, runs some highly regarded roundtables in this arena, notably his monthly Fintech for Breakfast series, now in its third year, and is nobody's fool for cyber sales hype. "While I retain a certain scepticism about the imminence of cyber Armageddon," he says, "it is clear that the threat is growing, and that at least some of the bad guys are as well-armed as the good guys. There have certainly been some well-publicised security breaches in recent months, and not all in financial backwaters like Bangladesh and Ecuador. What happened to Tesco Bank may presage bigger, and more damaging, attacks in major financial centres."

So it is good news that the CISI's own Daniel Broby, Chartered FCSI, joint author of a timely



tour d'horizon of blockchain technologies which opens this issue, has just launched Britain's first masters programme in fintech, at Strathclyde University in Glasgow.

A long tradition of cyber vigilance

None of this is new to the bright brains at GCHQ, of which the centre forms a vital, outward-facing part. The launch of the NCSC is seen as a new chapter in nearly 100 years of GCHQ's service to the country. During the War, mathematicians and engineers at the Bletchley code-breaking centre built Colossus, the world's first digital computer. This was to have consequences well beyond the vital job of codebreaking for which it was invented. Colossus ushered in the era of digital information and computing power. The result: a new Machine Age, every bit as significant as the Industrial Revolution.

The exchange of digital data across the internet, and through the web, has already brought extraordinary opportunities. As the doll demonstration showed at the Centre's launch, more aspects of our lives become connected to the internet every day, and the next generation will benefit from amazing new possibilities, many of which are yet to be imagined.

But all this progress depends on an infrastructure which is safe, and secure against attack by those who wish to abuse this great invention. The Centre has set itself a high bar: "to make the UK the safest place to live and do business online," says its CEO Ciaran Martin. "In stepping up to this challenge, we in GCHQ know that this is as great a task as any we have met before."

The role of education – and people

Education, training and qualifications play a key role. The vision of the UK's Cyber Security Strategy, published six years ago, was "for the UK in 2015 to derive huge economic and social value from a vibrant, resilient and secure cyberspace, where our actions, guided by our core values of liberty, fairness and transparency and the rule of law, enhance prosperity, national security and a strong society. The fourth objective of the Strategy requires "the UK to have the cross-cutting knowledge, skills and capability it needs to underpin all our cyber security objectives."

The CISI has a world-leading practical qualification on Managing Cyber Security, and some 20 UK universities have masters programmes that are accredited by GCHQ. This reflects a change in attitudes to the role of people in cyber security. It has become easy to fall into the trap of describing people as the weakest link; clickers on bad links, openers of nasty attachments. Bemoaning the 'wetware problem' has become standard fare at times. Now, people are seen as the unsung heroes of cyber security. Mr Martin's team aims "to put people-centric thinking at the heart of cyber security".

The coming of vast infrastructure investment

"One should not underestimate the lengthy process whereby the highways and byways of Europe were opened up to human movement and settlement. On the other hand, there is no comparison between the relative ease of travel in Europe and that in the greater continents. Caravans on the ancient silk route from China needed a year or more to cross the body of Asia. Yet from time immemorial any reasonably enterprising traveler has been able to move across Europe in a matter of weeks, if not days." This is from the excellent *Europe: a history* by Norman Davies, Professor Emeritus at University College London, and UNESCO Professor at the Jagiellonian University.

If even part of Dr Oleg Preksin's vision of a new Eurasian infrastructure reality (page 59) comes to life in this generation, then the face of the economic and political world will see a revolution.

Everyone adores infrastructure. “Well-designed projects combine economic needs with environmental sensitivities, they create jobs and provide companies with the opportunity to become more productive,” says Matthew Jordan-Tank, head of infrastructure policy and preparation at the European Bank for Reconstruction and Development (EBRD) in London.

“Global economic growth, productivity and job creation depend in no small degree on the ability to invest in and maintain critical new infrastructure assets,” he adds. So why is infrastructure investment lagging far behind actual requirements? In 2016 the McKinsey Global Institute published an influential study which identified enormous needs: For the period 2016–2030 alone a global infrastructure spend of \$49.1tn is needed, with some 60 % of this total needed in emerging market countries.

In a world of continuing low interest rates, institutional investors (and their clients) are hungry for the type of steady, near-guaranteed yields that this kind of investment can generate. It is also in most cases – roads, railways, airports, and ports for instance – appropriate for investors, both private and sovereign wealth funds, from Muslim countries.

While some countries have indeed increased investment in the sector, the overall shortfall is significant, with negative outcomes to global growth. As the report concludes: “If the current trajectory of underinvestment continues, the world will fall short by roughly 11%, or \$350bn a year. The size of the gap triples if the additional investment required to meet the new UN Sustainable Development Goals is included.”

“These are mind-boggling numbers,” says Mr Jordan-Tank. In April 2015 the international development institutions launched a paper, *From billions to trillions*, about the realisation of the UN’s Strategic Development Goals. Infrastructure investments play a core role in this. “Without the private sector this will simply be impossible and it is our view that it is now imperative to increase the level of private sector investment in infrastructure.”

The EBRD, set up in 1991 to support market economies and the private sector and today investing in more than 30 countries, believes that conditions on the ground favour greater private sector investment in infrastructure.

Preventing and controlling economic crime

The 35th international symposium on economic crime, to be held in Jesus College Cambridge from 3 to 10 September 2017, is the most extensive and ambitious programme that we have so far attempted. The over-arching theme is simply: who is responsible for protecting us from economic crime and are they up to this important task? If not, then how can we assist them to do a better job – for all our sakes?

These vital issues are pursued in a practical, applied and relevant manner, by those who with the benefit of experience are best placed to do so. The symposium, although held in one of the world’s leading universities and recognising the significance of intelligent deliberation, is not a talking shop for those with vested interests – official or commercial. We strive to offer a rich and deep analysis of the real issues, and in particular, threats to our institutions and economies presented by economically motivated crime and misconduct. We are also equally concerned to offer and assist in developing if not solutions at least better practices based on real experience and application. Therefore, well over 600 experts from around the world will share their experience and knowledge with other participants drawn from policy makers, law enforcement, compliance, regulation, business and the professions. The programme is drawn up with the support of a large number of agencies and organisations throughout the world and the organising institutions and principal sponsors greatly value this global commitment.

In considering how to better discourage and control economic crime, we examine the real threats facing our economies and in particular those facing the professionals who look after other people’s wealth. These

threats come not just from criminals and terrorists, but also indirectly as a result of law enforcement and regulatory intervention. We context these risks and the responses not only in terms of the law, but also regulation and especially compliance practice. Therefore in every specialist panel or workshop there is an array of relevant practical experience and expertise.

In recent years the symposium has attracted well over 1,800 participants from over 90 countries. This year will be no different, although, with the support of China, we are privileged to be able to give a special focus in some parts of the programme on its particular circumstances and the impact on the rest of us. As in previous symposia we do not focus on a single issue, no matter how important.



The symposium is not an ordinary conference. It was conceived to fulfil a practical purpose: to promote understanding of the real issues in controlling economically motivated crime and facilitate co-operation and effective action, ideally preventive. Consequently, we make every effort to foster networking and promoting meaningful co-operation.

The annual symposium over the past 35 years has brought together in one of the oldest medieval Colleges of the University of Cambridge, ministers, legislators, senior officials, diplomats, judges, regulators, law enforcement, intelligence and security officers, financial intermediaries, bankers, professional advisers, compliance and risk officers and researchers from around the world. This programme is structured to provide a depth and breadth of opportunity, second to none, for those participating in the symposium to become aware not only of existing, but also new threats, and how best to address them.

The Cambridge Symposium is not and has never been just a conference. It is organised on a non-profit making basis by some of the world’s most respected academic and research institutions with the active involvement and support of numerous governmental and inter-governmental organisations. Those who are concerned to protect and promote the integrity and wellbeing of their national economy, institution or enterprise – or who are concerned to better understand the risks facing business today, cannot afford to miss this very special event.

Professor Barry A.K. Rider OBE, founding director and co-chairman, Cambridge International Symposium on Economic Crime

Jesus College, Cambridge

For further information on the Symposium, please contact Angela Futter, Symposium manager: angela@afutter.co.uk

Learning at the boundaries of knowledge

On page 62 you will find details of a fascinating new research project on ‘informal learning during periods of uncertainty’ which is being led by Britain’s Open University and the University of Regensburg in Bavaria. This builds on an earlier project in Scotland on which the CISI co-operated, which considered how younger people working in finance planned their personal development and continuing professional learning, and at how they could be encouraged to be more self-directing.

This new study will focus on issues concerning uncertainty, highlighted by the current proceedings on Brexit. If you want any further information on this project, or have any comments on the *Review of Financial Markets*, then please do contact me. We hope you enjoy and are inspired by this edition.

George Littlejohn MCSI, Editor, *Review of Financial Markets*

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BLOCKCHAIN AND ITS USE IN FINANCIAL SETTLEMENTS AND TRANSACTIONS

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ABSTRACT

Blockchain is the technology at the core of what could become the 'fintech' transformation of capital markets. It can potentially facilitate cheaper, more efficient and secure operations. The mechanism behind it is introduced in this paper, as are its uses and suggested areas for future academic research. The paper critically reviews the promise that blockchain and distributed ledgers will speed up financial settlements and transactions. In it we recommend financial institutions evaluate the adoption of blockchain and/or adapt their existing legacy systems to allow for digital clearing over the internet.

Have you ever wondered why it takes three days to clear a cheque, why it takes a ten-minute telephone call, long account numbers and a punitive fee to transfer money abroad? None of these issues need happen, thanks to blockchain technology. This is at the core of the fintech revolution which promises a vision of seamless financial transactions over the internet. The concept is already in beta testing and billions of pounds are being invested in related applications. Some people believe it will transform financial services.

Blockchain was first described by Nakamoto (2008). It is based on a distributed computer architecture and facilitates the sending of digital instructions over the internet. In technical terms, it has what are called network nodes that execute and record digital transactions. These transactions are batched together into blocks before they are processed, hence its name. The blocks are effectively a series of written digital instructions linked together in a chain. This ensures that the contents and order of transactions can be verified. Such an instruction, for example, could contain written code to send money from Bob to Alice.

CONFUSION WITH BITCOIN

The programmed messages in blockchain are used to facilitate financial market infrastructure, payments, and settlements. There is a great deal of discussion in the media, banking circles and academia about the impact this technology will have on financial settlement and operations. A lot of this is misinformed. The concept is often confused with bitcoin, a digital currency that utilises blockchain technology. At the same time, the terminology has a habit of alienating informed discussion by practitioners. This is because financial and technical jargon do not mix well. Academics tend to focus on the engineering and cryptographic challenges. They overlook the complexities of introducing such technology alongside the legacy payment systems that dominate modern banking. This lack of clarity is hindering informed debate and has led to a slow uptake of the new technology despite its advantages.

The concept of blockchain is not as complex as its execution. As explained, it consists of a series of sequenced transactions, grouped into blocks, which are then processed by a network of computers that are digitally connected. In the case of the financial transactions it handles, the transactions may be of the sort normally kept on a bank ledger. In this instance, with a double-ledger entry for each transaction. This method highlights the origin and beneficiary of a payment.

The blocks, meanwhile, are chronologically connected by a series of cryptographic hashes (Damgard, 1990). These are unique secure identifying numbers, which act as fingerprints of the data contained within the blocks. Each block contains the fingerprint of the previous block, meaning that the data in each block can be used to ensure the previous block has not been altered. This fingerprint element is what joins the blocks together, creating a chain.

These chronological blocks can hold multiple transaction records. They are distributed through the nodes of the blockchain network which are carrying out the processing (Decker & Wattenhofer, 2013). In a public blockchain network, anyone may run their own node to process and validate transactions. The blocks are verified by the cryptographic hash which cannot be easily changed or falsified (Peters et al, 2015). If there is a change to any part of the data, the hash will appear to be totally different. The sequence is illustrated in Figure 1 below.

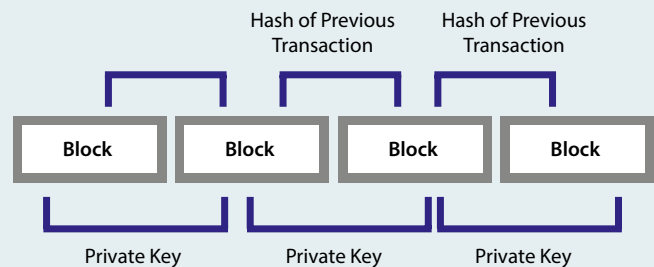


Figure 1: The mechanism of securing transactions on blockchain

The inclusion of the cryptographic hash makes fraud difficult. It is the key innovation that makes a blockchain secure. It solves the problem of the order of previous digital transactions being manipulated by a malicious party seeking to defraud others. Were someone able to alter the order of previous transactions, they could insert a transaction before a payment to another individual, draining their funds. This would result in the latter payment failing, leaving the recipient unpaid. Blockchain eliminates this so called "double spending problem", according to Hoepman (2007).

The unique hash identifiers in a blockchain will show as being different if any of the transactions within a block are modified or tampered with. Figure 2 illustrates how the hash of a block is used within the header of the next block to verify the history of events. The process of checking that transactions have not been modified is called validation. Buyya et al (2008) illustrate this works within decentralised networks, in other words over the internet. In this way, financial payments can be carried out, with transactions sent and stored on the internet using multiple online validation nodes and participants in the network. Blockchains are therefore sent to and stored on distributed ledgers. There are multiple copies of it kept by multiple parties, and any may verify the records at any time.

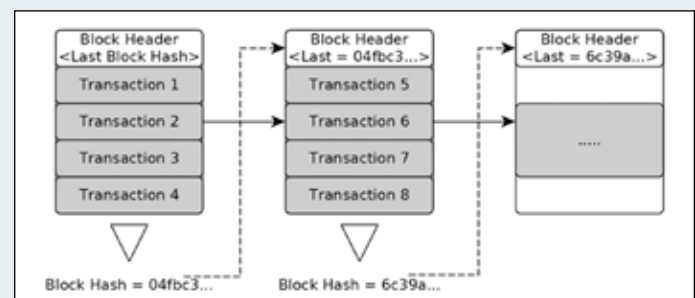


Figure 2: Illustration of the chaining of blocks, through the incorporation of the previous block hash in the next block header. This prevents alteration of previous blocks' contents, and preserves the order of blocks, and therefore transactions

The reason for the attention afforded to blockchain is that it has the potential to evolve into the next generation of the internet for financial processes. This is because it can facilitate the exchange of assets or information between various parties without the need for a trusted intermediary. Several features of blockchain technology make it particularly attractive. These include the immutability of digital records, and the resulting traceability and proof of ownership. The security and privacy of blockchains have captured the attention of financial market participants. With controlled access to distributed ledgers, financial transactions can be stored on the internet rather than simply on the server of individual banks. This makes them less dependent on legacy systems.

CRYPTOGRAPHY AT THE CORE

Security is at the core of blockchain, and as such can also be used to create digital currency. This is because the cryptographic hashes can not only be used for connecting the blocks but also for confirming the validity of blocks containing transactions. Cryptocurrencies such as bitcoin, litecoin and peercoin use this process, referred to as mining, as the basis of their security. The process of mining is used to ensure that blocks added to the ledger require a predictable amount of work to be carried out. This prevents any one party from dominating the blockchain by having a monopoly over the creation of new blocks. To reward miners, the successful creation of a new block results in the award of some new bitcoins to the miner. The limited supply and proof of work add to the 'attraction' of the use of such digitally based currencies. There are a few hundred such cryptocurrencies, called altcoins. Whether any of these will become a global success is debatable, but clearly there is potential for the world to move to a digital currency in the future, now that the technology is available.

Bitcoin was the first blockchain use in currency transactions (Nakamoto, 2008). Bitcoin, as a digital cryptocurrency, is secured by cryptography, rather than legislation, and is therefore operated independent from national or international regulation by governments or authorities, although parties participating in the network may be regulated within their own jurisdictions.

As said, cryptography is one of the core features of blockchain. The other is peer-to-peer networking, explained by Koshy et al (2014). They point out it solves the communication protocol known as the Byzantine Generals' Problem that was identified by Lamport et al (1982). This is what is termed a logical agreement problem and is based around how multiple parties can reach a consensus without any party being able to mislead the others. In the context of blockchain, the agreement relates to the transactions. Feldman and Micali (1997) demonstrated that by using this protocol, no network user can 'betray' others unless more than half of network participants take a control of the network. This is what is termed a '51% attack'. This risk is reduced through the distributed nature of the blockchain network, allowing everyone to participate.

One of the advantages of blockchain is that it enables what have become called 'Smart contracts' to be encoded within blocks, and executed automatically and impartially by software (Kosba, A. et al., 2016). Train commuters may be familiar with the basic building blocks of a smart contract, as this is similar to how their journey is recorded, or their season ticket validated, when they touch their card on the entrance sensors, as illustrated by Poon & Chau (2001). In effect, a smart contract instructs, verifies and enforces a set of contractual instructions. Koshy et al (2014) meanwhile showed that emerging smart contract systems can now allow mutually distrustful counterparties to safely transact financial settlements without a trusted intermediary.

Another advantage of blockchain usage is that it can potentially reduce operational expenses for the processing of large volumes of transactions, by bringing into effect newer and more modern processes, thereby hopefully reducing fraud. It can have a dramatic effect in reducing operational costs in financial incumbents. Traditional financial incumbents are testing and evaluating blockchain for this rather than its attraction as a decentralised structure. Either way, the technology is becoming more widespread.

In 2015 the earliest adopters of blockchain launched a consortium for blockchain technology named R3 CEV. This consortium has gained momentum and has the goal of applying such distributed ledger technologies in financial organisations. It has focused on daily transactions and the sharing of a common distributed ledger system.

The other key initiative is Ethereum. This was first described in 2013 and was officially launched on 30 July 2015. Ethereum is a platform designed to run smart contracts over a decentralised network of peers. A smart contract in the context of Ethereum is described as "an application that runs exactly as programmed without downtimes, censorship, fraud or third party interference". The Ethereum project's mission is to fully decentralise the internet. It provides a platform on top of which anyone can create a decentralised internet service secured by the blockchain. Ethereum makes it easy to launch blockchain-based applications without needing to create a new blockchain protocol.

Blockchain technology allows for a new model of consensus and validation of records/events, ensuring that all participants can reach a compatible and congruent view of previous transactions. The ability to validate transfers or transactions cryptographically provides opportunities for enhancing the security of current trading and settlement platforms. In certain circumstances, such as for high value or priority transfers or settlements, the ability to prove cryptographically that an attempt was made to initiate a transfer at a given time would assist in ensuring the correct relative ordering of settlements, or allow a party to prove the existence of a signed transaction at a certain time, such as to comply with contractual obligations or similar.

THE ROLE OF TIME-STAMPING

The legacy international settlement system is called the SWIFT network. This is not without its security and authentication issues and is becoming very dated. By moving to a model of a blockchain, where transactions are broadcast and validated by others, a more robust security model can be adopted. In that way transfers can be cryptographically verified against the bank of origin. In the event of the transaction being improperly signed, the cryptographic validation will fail, and the other banks will detect this conflict, refusing to honour the transaction, and alerting the issuing bank as to the potential for a compromise of their systems.

One of the challenges of blockchain for banks and financial institutions is that it does not inherently provide accurate time-stamps of transactions. While the blockchain construct gives an immutable history, and verifiable order of events, individual events themselves can only be validated as existing at or after a given point; inclusion within blocks is not guaranteed, and if two rival blocks were produced at the same time, this will result in a clash causing one block to appear before the other. The transactions from the second block will still be included in the network, but may appear at a time later than would otherwise be indicated from their position within the chain.

More generally, within a blockchain, the content need not only be financial transactions of a currency-derived commodity; assets or other property could have verifiable and accountable ownership transfers

carried out within a blockchain. For example, house sales could be carried out on a form of blockchain, allowing government to ensure that all transfers are properly registered and thus that taxes are correctly paid. In addition, such a construct could facilitate interesting future opportunities to make doing business online easier. With such a registry, a user could, in theory, cryptographically prove ownership of their own home within seconds, allowing a lender to offer them a secured loan immediately. Tenancies could be agreed digitally, with a blockchain used to identify 'rogue' unregistered landlords, since tenants would lodge their contract and deposit via the blockchain. Unauthorised subletting could be similarly detected.

One fallacy about blockchain comes from the perception that exposing transaction data over the internet is insecure. Blockchains need not be fully exposed to the public. An entirely private blockchain is possible. It could be held between a group of mutually trusting entities such as banks. Alternatively, a hybrid blockchain is possible, whereby anyone may read the blockchain, but only authorised members may append to it, perhaps for transfers of restricted assets. The other fallacy is that it is insecure because unknown and faceless programmers are developing it. This overlooks the power of group software development, which historically has proved superior to single code production, and the ability for anyone to inspect open source code for quality and correctness.

Critically, one should also point to both the large data demands of blockchain, as well as the amount of processing power required to create cryptographic hashes and validate the transactions. These two areas, blockchains biggest weaknesses, require further academic and practical investigation.

In conclusion, the security, reliability and effectiveness of blockchain will result in more efficient and cheaper financial transactions. We recommend that financial institutions evaluate its adoption. If this happens, blockchain has the potential to significantly transform banking through new models for the processing of transactions in a distributed manner, rather than the current more centralised approach.

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HYPOTHESIS: RISK, LIKE MASS AND ENERGY, CAN NEITHER BE CREATED NOR DESTROYED. DISCUSS

[submitted 27 February 2017]

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ABSTRACT

The authors imagine the title as an essay question in a final financial examination and use this as a stepping stone to look at issues surrounding risk in financial products, the forms risk may take, and the difference between perceptions of risk and reality. Questions are also raised about the impressions of risk levels that may be conveyed to clients by advisers and wealth managers.

INTRODUCTION

We start with a deliberately provocative statement in the form of a hypothesis, potentially to be disproven, but to provide a focus for clarifying awareness of the risks inherent in financial products. Thus to slightly expand the title of this article:

Hypothesis: for a given level of expected return, risk cannot be created or destroyed, it can only change form, unless a financial asset is bought or sold.

Readers may readily object on the basis that they can quickly see ways of creating or extinguishing risk – and we agree. Other methods of transferring risk include the use of derivatives. However, like many good exam essay questions, the key aspect may not be the final answer, so much as the thought processes and how they are arrived at. Several are explored below. A strong understanding of the many different forms that risk can take is beneficial for portfolio managers, but it is also extremely important that wealth managers and advisers effectively communicate product risks to clients.

CREATION AND DESTRUCTION OF RISK

In everyday life, personal risk can easily be created. Consider if one wants to cross a busy, hazardous road to reach the sweet shop on the other side. Stepping onto the road creates risk, returning to the pavement (or reaching the pavement on the other side) extinguishes that risk.

In the world of financial markets risk is acquired by investing in an asset. Once acquired, the value of an asset will *generally* have an uncertain future, thus it carries financial risk. The removal of that risk is accomplished by selling the asset, accepting its current price. For the sake of this article, we assume that cash has no risk, although at times history has proved this to not be the case, and a degree of inflation risk is frequently present. This represents a convenient simplification for the current discussion. Alternatively, the arguments could be phrased in terms of additional risk above that of cash.

This explains the appearance of ‘... unless a financial asset is bought or sold’ in the hypothesis, but introduces a suspicious appearance of the

word ‘generally’, italicised above. As is so often the case, by exploring one issue with the hypothesis, another has been revealed. Nevertheless, the purchase and sale of assets as a means of taking on or removing risk seems sufficiently fundamental. This would appear to be a useful step forwards.

RISK AND RETURN

The assertion was that once acquired, the value of an asset will generally have an uncertain future. If the word ‘*generally*’ had not been included as a get out, the reader would surely have countered “but what about the risk-free asset?” or some such, pointing out that some assets have a predetermined value at some future point guaranteed by exemplary issuers. Indeed, such assets might be at least as safe as the cash that has arbitrarily been declared as having no risk.

By including in the hypothesis ‘for a given level of expected return’, we appeal to a generalised risk-return trade-off, whereby riskier assets (whatever that means) are generally accepted to have a higher level of return, a sort of idealised Capital Market Line or risk premium expectation, for example see [1], [2].

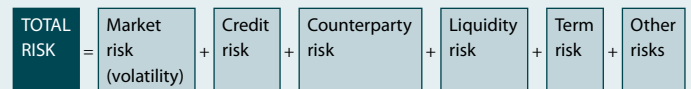
Another way of looking at this may be to imagine two financial products which offer the same level of return, but purport to do so at markedly different levels of risk. This raises the question as to why the two risk levels are so different and to wonder where the risk has gone. Does the lower risk product really have as little risk as it claims to? This smacks of ‘if it seems too good to be true, it probably is’ and so raises curiosity, or maybe suspicion, depending on the opinion of the motives involved.

So, we proceed with our thought experiment on the basis of risk ‘for a given level of return’, since it allows us to explore some interesting ideas around the transmutation of risk by financial alchemy.

ELEMENTS OF RISK

The word ‘risk’ is mostly used in a rather imprecise way. Does it mean volatility (here referred to as market risk), credit risk, risk of default, liquidity risk or what? In the current discussion, it should mean all types of risk, both those above and more, and indeed this is rather the point. Risk may be regarded as not having sufficient cash when it is required, which helps emphasise that volatility (or market risk) is hardly a complete measure of risk alone [3]. This is where the transmutation of risk between its different ‘elements’ comes into play.

There are a number of different ways of breaking down risk into its component parts (see [1], [4], [5], [6]). The breakdown below is intended to be illustrative rather than comprehensive. One breakdown of risk into elemental components is as follows.



In outline, the risks above are market risk as captured by volatility or pricing variability; credit risk that a bond issuer will be unable to pay or be downgraded; counterparty risk that the other party to some agreement will be unable to meet their obligations (often in relation to over-the-counter derivatives); liquidity risk that a would-be seller of an asset finds that when they need to sell, they cannot, or no buyers can be found at a reasonable price; and term risk that an asset holder is locked into their position for an extended period and finds themselves unable to exit should they need to do so. Some of these may be so-called ‘tail risks’ in that they would only materialise under fairly extreme conditions. Of

course, until such time as it is no longer possible for them to occur, this does not mean they do not exist.

Since the above list is not comprehensive, the final element of 'other risks' is a catch-all, which would, for example include risks such as currency risk, operational risks and others not listed.

Clearly several of the risks listed are interrelated, for example credit risk and counterparty risk both relate to the failure of a counterparty to meet obligations, although they have slightly different connotations. Similarly, liquidity risk and term risk are related, since a lack of liquidity could arise as a result of being locked into a product for an extended term.

The hypothesis now reveals a slightly sinister aspect; some sorts of risks can be readily measured (and will therefore tend to be visibly reported as 'risk'), while there are those that are harder to measure. These harder to measure risks can easily become neglected, and potentially swept, invisibly, under the carpet – until of course such times as they are uncomfortably proved to matter after all.

Thus, we are broadly interested in risk for a given level (or expected level) of return and by our hypothesis, ask whether actual total risk levels are indeed similar, even if headline risk numbers (likely only volatility and maybe credit risk) are markedly different.

The visual image is to think of total risk rather like a balloon – on its surface are indicated areas labelled as 'volatility'; 'credit risk', and so on. If a product's risk balloon (with a given level of return) is squeezed to diminish volatility, the hypothesis suggests that the balloon must bulge out somewhere else, perhaps at 'credit risk', or 'counterparty risk' – since the air volume inside the balloon is fixed (for the scientists, we assume an incompressible gas inside the balloon).

THE ALCHEMY OF RISK

To support the hypothesis, we now look at some examples which may be informative for the reader and start to draw out some of the less obvious risks of certain varieties of financial products.

Consider three simplified fictitious products, all of which offer similar expected returns, say in the order of mid-single-digit annual returns.

1. A large fund, thoroughly diversified across asset classes and geographical locations.
2. A company offering an actuarially 'smoothed' return based

upon investment in its underlying large multi-asset fund, with lock-in periods and periodic bonus payments.

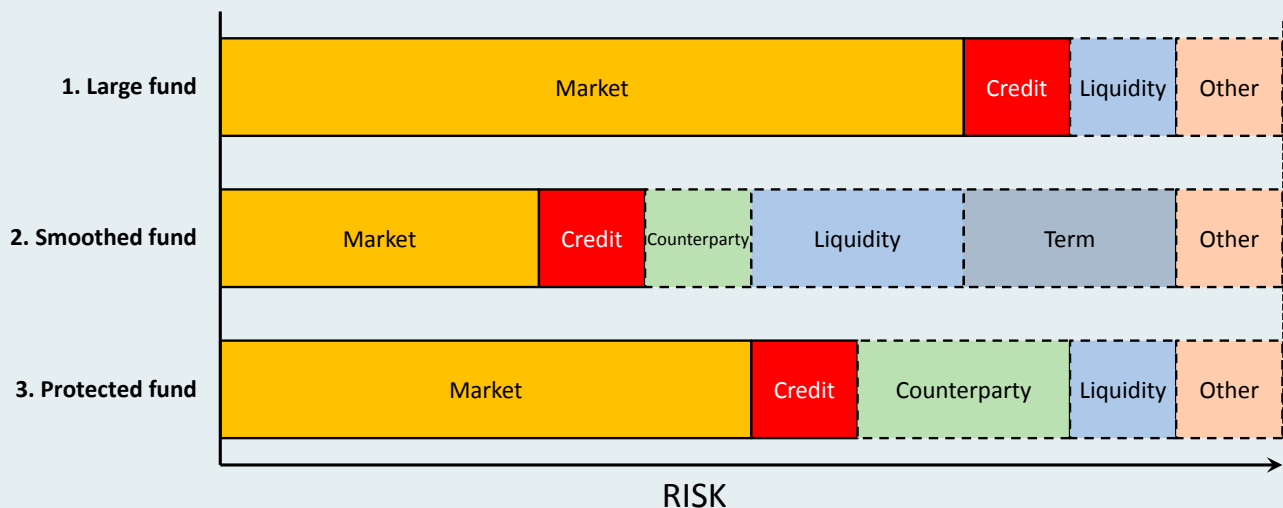
3. Investment in a well-diversified portfolio of assets with a guarantee that the value of the investment cannot fall below 80% of the initial investment, potentially for a small premium (which it is assumed does not materially affect the returns).

In the case of the first, the well-diversified fund, there would be a degree of volatility in quoted fund prices, which is market risk. The fund also carries a range of other risks, such as credit risk if it includes bonds, liquidity risk if some assets are not immediately saleable and so on (see figure below).

Turning to the second product. This apparently, being smoothed, may have little volatility. Does this make it lower risk? Not by our hypothesis. So how has the reduction in volatility been accomplished? In the example, the company offering the product has a large underlying portfolio of assets, which, for simplicity we assume as being like the well-diversified portfolio of the first case. The company then puts assets on one side during good times (reducing the investment return), and uses these during bad times to smooth volatility. This depends on the financial strength of the company in question – the investor has replaced market risk with counterparty risk. Even if the company manages the process with a large underlying pool of assets set on one side, this risk is still present in some form. Additionally, the lock-in periods present the investor with liquidity risk (if they decide they need to encash their investment early) and term risk since they must remain invested for suitable periods to receive the bonus payments. The lock-ins and periods required for bonus payments may also increase counterparty risk by keeping the investor exposed to the product for longer than they might have been otherwise.

For the third case, there may be some volatility in the portfolio, as in the first case; but apparently this is capped at 20% downside, since 80% of the initial investment value is guaranteed. But how is this guarantee accomplished? It may be that the sponsoring company uses its own financial muscle (adding counterparty risk), or it could use derivatives to lay off the risk. If derivatives are used, these could be over-the-counter, which means the risk has been sold to a limited number of other market participants (also counterparty risk), or else exchange-traded derivatives could have been used. Exchange-traded derivatives may permit the nearest thing to the 'destruction of risk' in this context, because they are guaranteed by the exchange via 'novation' – but what this really means

Illustration of the alchemy of risk. Market and credit risk may be apparent, while other risks may be less obvious.



is that the risk of failure has been spread over all market participants – thinly spread if the sums are small, as over many participants – but still there, lurking as risk, and not destroyed.

LIQUIDITY RISK

Now consider a different proposition, a comparison of a fictitious direct commercial property open-ended fund (whereby the fund itself owns physical buildings), with a fictitious multi-asset fund invested in a range of equities and bonds. The multi-asset fund undoubtedly exhibits volatility, seen through daily price fluctuations, with credit risk from the bonds it holds and so forth. Meanwhile the direct commercial property fund appears to have low volatility, suggesting lower risk. But is this really the case? The direct property fund will hold some liquid assets to meet investor redemption requirements, but apart from that it owns buildings. Its prices only change by small amounts because the majority of its assets tend to get revalued either by a surveyor reappraising them, or else when sold. If many investors in this fund wished to redeem their holdings, once the liquid assets are exhausted, the fund manager must sell buildings to raise cash – a slow and uncertain process. Indeed, if the manager becomes a forced seller he is unlikely to realise a good price for the buildings sold. Thus this fund may be low in volatility, but it clearly carries liquidity risk. The risk balloon may have been squeezed around volatility, but the illiquid nature of property means it bulges out at liquidity risk.

DISCUSSIONS BETWEEN CLIENTS, ADVISERS AND WEALTH MANAGERS

The examples above illustrate the important roles that advisers and wealth managers play when communicating product risks to their clients. Many products have been developed that appear to reduce risk, perhaps by reducing apparent market volatility. However, on closer examination these may bear higher risks elsewhere.

In the examples above, even a large well-diversified fund is likely bearing risks that may not be well captured by volatility (eg, credit risk for any bonds held). The other structures, developed to reduce market risk, replaced it with counterparty, liquidity and term risks. In the case of direct property funds, while volatility may appear lower, the limited availability of readily saleable assets in fund portfolios means that this has been obtained at the expense of liquidity risk.

It would be easy for advisers to promote assets with apparently low

volatility for the expected levels of return as ‘lower risk’ to clients, however it would appear likely that the lower volatility has been achieved by the assets taking on higher counterparty, liquidity or other risks by way of counter-balance. In these circumstances, it is crucially important that advisers and wealth managers work hard to ensure that their respective client bases fully appreciate the sources of risk taken on, rather than focusing solely on areas where risk may have been reduced.

IN CONCLUSION

As a practical tool the hypothesis seems to have proven quite useful. Really what it does is remind us to explore where the risk has gone, and to help focus our minds when faced with the ‘if it seems too good to be true...’ suspicion. It also helps an investor appreciate that with risk it may be a matter that you cannot avoid it, but that you maybe can choose which kinds of risk you are prepared to accept, if you like ‘you pay your money and make your choice’. Apart from being a useful mindset for portfolio managers, it is extremely important that both of these aspects are effectively communicated by advisers and wealth managers to their clients.

So, on balance, we stand by our hypothesis, provided we are not asked to define anything too rigorously.

Hypothesis: for a given level of expected return, risk cannot be created or destroyed, it can only change form, unless a financial asset is bought or sold.

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NEW HORIZONS ON THE GREAT SILK ROAD

Dr Oleg Preksin, vice president of the Association of Russian Banks

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At a major conference in Cambridge University in 2016, the chairman of the CISI, Sir Alan Yarrow FCSI(Hon), pointed to the importance of infrastructure development to the world economy and to financial services. In the next 40 years, he said, there will be more spend on infrastructure than in the previous 4,000.

One of the great hubs of infrastructure development today lies in Eurasia, spanning the continents of Europe and Asia. This development builds on the ancient traditions of the Silk Road – and other similar routes for the great treasures of the ancient world – through the expansion of railways across the continent in the 19th century (echoing parallel developments in North America). Now, the Eurasian planners have raised their game, and are working on transcontinental transport infrastructure of breathtaking scale, one on whose financing deals our children will still be working. China put \$15bn cash into this in 2016 as seed money. Dr Oleg Preksin, a distinguished Moscow-based banker who was for some ten years head of the European Bank for Reconstruction and Development's Russia desk in London, provides a glimpse of a new and very different future for the economic world.

INTRODUCTION

The commitment of global leaders to increase the G20's GDP annual growth rate by at least an additional two percentage points by 2018 (G20 Leaders' Communique, Brisbane Summit, 15–16 November 2014), ie, not less than up to 5% growth per annum, up from the present rough average of 3%, is difficult to fulfil even if it is backed by the priorities of the 2017 G20 German presidency – “to reduce economic, social, ecological and political risks and to safeguard strong, sustainable, balanced and inclusive growth through collective action”; to “pursue three aims: building resilience; improving sustainability; assuming responsibility”¹.

Today, when “the development of the world economy is not keeping pace with expectations”, when “alongside stabilising the world economy and financial markets, numerous global challenges are on the G20's agenda, including geopolitical conflicts, terrorism and migration and refugee flow, as well as hunger, ongoing climate change and pandemic”, when “we are witnessing the rise of uncertainty and anxiety ... doubts about the benefits of globalisation and free trade” and “in an increasingly multipolar world, the international community thus also finds itself confronted with the risk of increasing fragmentation of the international economic order”², the implementation of the above G20 commitment requires a proactive search for new drivers of global growth and integrity. One such driver is the Chinese One Belt – One Road (OBOR) initiative, which has received great attention and broad support almost everywhere.

The OBOR concept, jointly released in March 2015 on behalf of the State Council by China's top economic planning agency, the National Development and Reform Commission, and the Ministries of Foreign Affairs and Commerce of the People's Republic of China (PRC) and entitled ‘Vision and actions of jointly building Silk Road economic belt and the 21st century maritime Silk Road’, provides a great deal of creativity and flexibility to all the interested parties. The framework character of this document, with minimum details and a clear declaration that the OBOR is open to all nations and not limited geographically, is explored by various stakeholders, promoting their vision of this mega project.

For example, the Silk Road Chamber of International Commerce (SRCIC), founded in Hong Kong in December 2016 “to renaissance the Silk Road and to enable business participation in the investment and trade opportunities it offers”, brought together high-level representatives from 39 countries as founding members. The total number of countries represented in the SRCIC is now more than 50. The SRCIC has established five professional committees: on trade; finance; culture; transportation; energy; and seven sub-organisations, including eSilkRoad, Silk Road International Development Fund, Silk Road Think Tank Association, Silk Road Trade Expo Park, Silk Road International Commodity Exchanges, Silk Road International Association of Museums and Grand Beauty International Cultural Art Trading Center.

THE GREAT ‘BELT AND ROAD’ PLAN

All of these are intended to form integral parts of the Chinese initiative, providing a brand new platform for interactive connectivity and financial services for ‘belt and road’ construction, becoming “the decision-making references for industry development and project co-operation”, an instrument to boost cross-border commerce and improve the real economy.

OBOR has a rich history, with numerous ancient components and their modern reincarnations. One of these is the New Great Tea Road, a modern replica of a caravan route from China to Europe in the 18th to 19th centuries, which passed through the territory now belonging to Mongolia and covers most of Russia. An ancient Tea Road spanned the same range as the jade, salt, cinnamon, tin and wine routes, and was second only to the Great Silk Road in terms of turnover.

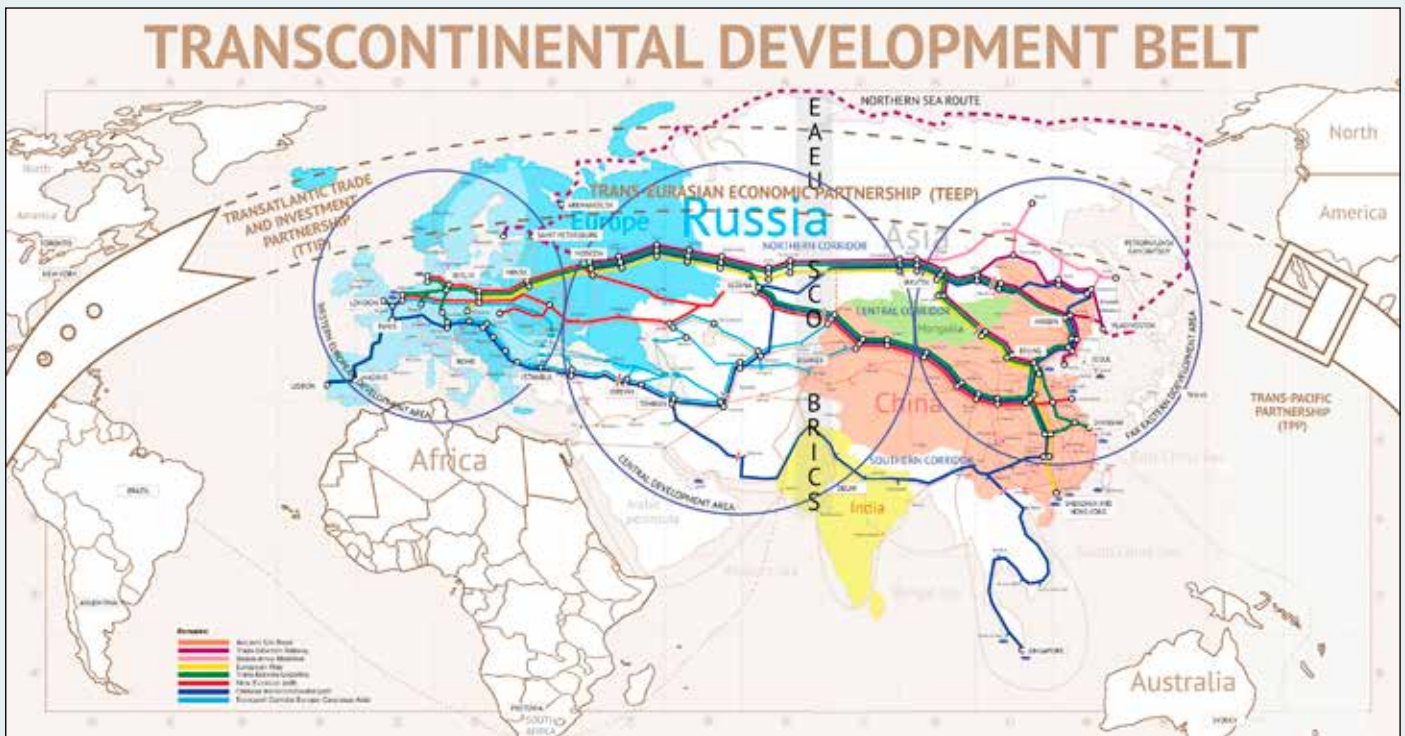
The OBOR concept is being discussed between China and Russia at different levels. The leaders of the two states have reached a consensus on tapping co-operation potential and advantages, by intensifying bilateral ties in energy, high-speed railway and infrastructure, aerospace and aviation, manufacturing and agriculture, investment and finance, and other fields. Moreover, both sides have agreed to reconcile the construction of the Silk Road Economic Belt (SREB) and the Eurasian Economic Union (EAEU) with possible participation in joint projects of the Shanghai Cooperation Organization (SCO) member states as well. The accession to the latter of India and Pakistan increases the SCO population to almost half of global total. The combined resources of SCO and EAEU countries are self-evident and both organisations are open to new members who share their fundamental principles.

The SCO decision on the accession of India and Pakistan and simultaneous Brexit announcement indicate the existence of dual trends in Greater Eurasia development – for integration and for disintegration. This shows the importance of an attractive and reliable platform for the idea of a single economic space from Lisbon to Vladivostok and from Helsinki and Archangel to Singapore and Mumbai. This major platform could be formed by a Trans-Eurasian Economic Partnership (TEEP) with a common transport and logistics network as its main pillar. This would add to the OBOR initiative a top-level infrastructure mega project, with virtually unlimited potential for development. Together with the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), no matter what form they might take in the changing political environment, TEEP might well lead to a common Transcontinental Development Belt (TCDB).

The TEEP, formed by the EAEU and SCO member states in co-operation with interested parties across Asia and Europe, including the EU, and

1. Priorities of the 2017 G20 Summit, Berlin, 1 December 2016, p. 5.

2. Ibid., p. 2–4.



other continents, as well as the proposed Transcontinental Development Belt, are an alternative to the attempts to monopolise all benefits from new technologies and to create the barriers to the broad spread of breakthrough innovation in order to maximise technological rent.

HIGH-SPEED TRANSPORT CORRIDORS

An extensive network of high-speed transport corridors with all the modern logistic facilities across Eurasia form the basis of the TEEP project. The creation of such a network provides the opportunity not just to upgrade the infrastructure for ease of communication, but to secure inclusive and well balanced development in different areas. One of the main routes between east and west in the new Eurasian transport network should be the high-speed Beijing-Moscow-Western Europe transport corridor with its spur lines to the Baltic, Atlantic and Mediterranean states in the west and to the Pacific, south and South-East Asia countries on the other side. Modern traffic arteries should reliably link with the neighbouring states the countries of the EAEU, the Commonwealth of Independent States (CIS) and SCO, restoring to a new level an ancient route from the Varangians to the Greeks and forming a powerful north-south transport corridor. Passing through Armenia, Georgia or Ukraine, new transport routes will help to resolve the existing conflicts, and they should contribute to economic growth almost everywhere. The commercial attractiveness of high-speed railway links from Central Russia through Belarus to Poland and Germany, with possible outlets to Lithuania and the Kaliningrad Region, is clear.

As an example, the 770-kilometre Moscow-Kazan high-speed railway segment has been designed for bullet trains capable of running at up to 400km per hour. This pilot Russia-China joint construction project is expected to be followed by others, with various routes which are shorter than any by sea (Russia can offer the shortest route possible in both cases), but considerably more expensive. However, the existing Trans-Siberian Railway (TSR) utilisation ratio (that is used to deliver cargoes from Shanghai to Brest and further to the EU) is close to its maximum.

Meanwhile, several bottlenecks remain in its Siberian and Far Eastern parts. By contrast the utilisation ratio of the other mainland route going to Europe through Kazakhstan and the central and European parts of Russia is estimated by experts to be less than 25%.³ Improvement in logistics all over the TSR and the removal of bottlenecks should help promote the successful development of all the land routes from China through Russia and Kazakhstan as well. According to the same experts, successful integration of new techniques and technology, including the digital economy, will significantly reduce the costs of land transportation on any routes from Asia to Europe and thereby increase their competitiveness.

Enabling the full capacity of the central route of trans-Eurasian transport and logistics corridor with an upgraded trans-Siberian line does not preclude the development of other routes that may be also commercially viable. One such route, the China-Mongolia-Russia Economic Corridor, provides for the implementation of about 30 projects agreed by all three parties on the sidelines of the June 2016 SCO summit in Tashkent. Another route can go to Russia from eastern China through the Altay directly.

THE FINANCING CHALLENGE AND OPPORTUNITY

It is reasonable to ask: how can such projects and programs be funded and who is able to support TEEP and TCDB mega initiatives financially? The answer lies in public-private partnerships (PPPs) at national, regional and global levels. Likely sources of capital include conventional multilateral development banks (MDBs) and other similar institutions, as well as new ones, such as the Asian Infrastructure Investment Bank (AIIB) or the Brazil, Russia, India, China, South Africa (BRICS) New Development Bank (NDB). Each of these has authorised capital of \$100bn. The AIIB, where China, India and Russia are the main shareholders, approved loans of \$1.73bn in its first year of operation, from January 2016, to support nine infrastructure projects in seven countries. The Bank started its credit activities with co-financing from the World Bank, Asian Development Bank (ADB) and European Bank for Reconstruction and Development (EBRD). The NDB, which approved its first block of projects in 2016,

3. Eurasian Development Bank Working Paper, 28.04.2016.

expects its lending to double every year over the next two or three years and plans to leverage \$10bn in six to seven years. But the development of project financing in the PPP format in the scope adequate to their mandate remains a challenge for both banks. And in terms of budget constraints this is an important reservation.

The Eurasian Development Bank, International Investment Bank and Black Sea Trade and Development Bank, as well as the European Investment Bank and Nordic Investment Bank can all find decent roles in this mega project. Its successful implementation could be promoted by developing some TEEP-related bankable and investment-ready project pipelines on national, regional and global levels.

MDBs can serve as catalysts, attracting private investment for challenging projects and programs by use of guarantees and co-financing, focusing more on their construction phase, which is especially important for infrastructure development. Building up infrastructure project preparation facilities already established by EBRD and ADB, for example, as 'assembly lines' for cross-border infrastructure development projects, MDBs can play an invaluable role in the development of Eurasian transport corridors and logistics facilities.

ENHANCING CONVENTIONAL FUNDRAISING

To secure adequate financial support for projects of TEEP and TCDB magnitude, it will be worth enhancing conventional fundraising with some form of special purpose vehicle (SPV). The construction and exploration in the late 19th to early 20th century of the Chinese Eastern Railway (CER), also known as the Chinese Far East Railway and Manchurian Railway, might provide some useful experience, which can be developed to reflect current realities.

The Chinese Eastern Railway Joint Stock Co. (CER JSC) was built with the participation of foreign capital in record time (six years, from 1897 to 1903) in harsh conditions. The railroad was severely damaged during the Boxer Rebellion that swept the Qing Empire in 1899–1901. This multimodal infrastructure project eventually became profitable. The new route provided a shortcut from the world's longest TSR near the Siberian city of Chita via Harbin (built as the CER capital) to Vladivostok and Port Arthur, with further connections to Beijing, Seoul and other major cities. Management of the project was entrusted to the Russian-Chinese Bank (RCB) established in December 1895. More than 60% of its capital came from four French banks and 15% from the St Petersburg International Commercial Bank, which was under German influence. The Chinese envoy to St Petersburg and Berlin (who later became the first chairman of CER) signed the 80-year concession agreement for RCB, and the CER JSC Charter in December 1896 was approved by Nicholas II.

The concession agreement granted CER the sole right of management over vast areas and this was used to the full. The CER had not just the railroad and the rolling stock at its disposal, but also a variety of production facilities and farmland. The CER also built its own maritime fleet and ran regular shipments to Japanese, Korean and Chinese coastal cities. To finance its development, the CER arranged some 20 bond issues that were taken up by the Russian government and also placed in the markets elsewhere.

THE ROLE OF SPECIAL PURPOSE VEHICLES

To finance the TEEP mega project, even the resources of the \$40bn Silk Road fund will not be enough. Loans and investment from the development banks are also of limited application. So there is a need to consider the possibility of establishing as an SPV some specialised mega fund, that may issue international infrastructure bonds with partial state or interstate guarantees, and to register a major management company, inviting world-class financiers and entrepreneurs with impeccable international reputations to its board. The fund with the management company could be domiciled in one of the leading international financial centers (IFCs), such as Hong Kong or Singapore, or Astana, where the IFC is being launched shortly, or even in Russia if the plans for an IFC in the country are finally implemented. Other possible options include the Big Ussuri island on the border with China and the Baltic Peninsula split on the Russian border with Poland. The SPV-issued bonds may be convertible into the shares of the funds themselves or into the shares of the financially supported enterprises, if the respective project portfolio will be attractive enough for the bond owners. This frees the issuer from having to repurchase at least part of the bond issues at their term and makes the guarantees little more than a formality.

Joining the TEEP mega project, through participation in the development of its transport and logistics components, of business circles from EAEU-CIS, BRICS and SCO together with entrepreneurs and investors from Japan, Republic of Korea and South East Asia states, from western Europe and North America will translate the idea of Greater Eurasia Economic Union from the scope of scientific and political discussions to practical actions. Speaking in June 2016 at the St Petersburg International Economic Forum (SPIEF), the then UN Secretary-General Ban Ki-moon outlined "the critical importance of further economic integration and co-operation in this region. However, he noted: "We see countries breaking ties and building new barriers. History tells us that this is not the right direction for Europe. We need to strengthen ties and build bridges, instead of building walls ... Let's work together to make this world better." The proposed project is designed to build such bridges by facilitating joint work and strengthening mutually beneficial ties. It is hard to imagine another initiative more suitable to fit the bill of "the drivers of economic growth" that the global leaders had in mind when they endorsed in 2014 the G20 Global Infrastructure Initiative (G20 GI) in Brisbane, or when they endorsed two years later in China the new Global Infrastructure Connectivity Alliance Initiative.

All of Eurasia could become a territory of accelerated growth. Sustainable development could be secured by the rational combination and prudent use of its enormous natural resources, production assets, scientific and technical potential, financial and human capital from east and west, north and south. This is the main thrust and the key purpose of the TEEP and TCDB mega projects, in which all interested and committed parties will be welcome.

DR OLEG PREKSIN

Dr Oleg Preksin, B20 Sherpa for Russia in 2012–2015, is now a member of the B20 Financing Growth and Infrastructure Taskforce, as well as BRICS Business Council Financial Services Working Group. He is vice president of the Association of Russian Banks (ARB) and has extensive banking experience in Russia and abroad, both in state and private sectors. He was the first Russian director on the EBRD Board, also representing Belarus and Tajikistan. Dr Preksin is one of the founders of the St Petersburg International Economic Forum (SPIEF) and a member of its Initial Organising Committee. He is a member of the Coordinating Committee of the Financial & Banking Association of Euro-Asian Co-operation and of the Eurasian Economic Commission Working Group for the EAEU Integration Mainstream. He is also president of the State of Moscow Academic Art Lyceum Support & Development Fund.



INFORMAL LEARNING DURING PERIODS OF UNCERTAINTY

The CISI is delighted to be involved in a research project on continuing professional development, specifically on 'informal learning during periods of uncertainty'. This is being conducted by the Open University, Britain's biggest university, in association with European university partners. For further information and to participate in the research, please contact vasudha.chaudhari@open.ac.uk

RESEARCH RATIONALE

The financial sector in the UK is in a state of uncertainty. Sustaining and enhancing of human capital through innovative professional learning is a priority. However, formal training is not sufficient to help professionals navigate through the uncertainties in the sector. Research suggests that during uncertain periods professionals tend to follow "unofficial, unscheduled, impromptu" (Cross, 2013) ways of learning rather than conforming to structured training. This situation creates several challenges:

- **Challenge 1: Self-regulation**

Periods of uncertainty are characterised by volatility, uncertainty, complexity and ambiguity (VUCA).¹ Under these circumstances people have to be able to self-regulate their own learning, rather than rely on pre-prescribed courses. The factors that potentially affect learning under these circumstances are unclear.

- **Challenge 2: Support for informal learning**

Informal learning can be broadly classified into – Self-directed, Incidental, and Socialisation learning (Schugurensky, 2000). According to Cross (2013), 80% of organisational learning falls within these three categories. Yet, less than 20% of learning budget is invested in supporting this. The percentage balance becomes increasingly skewed during uncertain times, as learners look towards informal learning techniques in the absence of formal learning materials, whereas organisations invest more on producing elaborate content to make up for the knowledge gap. Thus, delimiting numeric measures that validate informal learning during uncertain times. This leads to a unique conundrum – on one hand organisations hesitate to invest in learning measures that have limited empirical evidence of effectiveness; on the other hand it is challenging to produce empirical evidence without organisational support.

- **Challenge 3: Intergenerational learning**

Usually younger people learn from their older colleagues, but in periods of uncertainty everyone is a 'novice'. Therefore, intergenerational learning may be different. When people self-regulate their learning they may seek help from younger/ less experienced professionals, rather than choosing the conventional routes for support. This may impact the dynamics of intergenerational learning. There is little understanding of how this may impact the informal learning culture within the organisation.

RESEARCH QUESTIONS

1. What are the factors that affect learning during uncertain times?
2. How do these factors relate to learners' ability to self-regulate their learning?
3. Does supporting informal learning techniques impact learners' perception of factors affecting learning during uncertain times? If so how?
4. How do informal learning techniques impact the dynamics of intergenerational learning in the financial sector?

1. VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) – This acronym was introduced by US military to describe the conditions in the post-Cold war period. It has since been widely adopted in the business and strategic leadership literature.

LEARNING UNDER UNCERTAINTY – RESEARCH PROGRAMME

This research programme will generate a number of key outcomes:

- Information about how their learners perceive learning in uncertain times
- Information on the dynamics of intergenerational learning in periods of uncertainty.
- An actionable framework that can be used to scaffold informal learning during periods of uncertainty

RESEARCH TIMELINE

To address the challenges presented in the previous section, this research study will be undertaken in three phases:

- **Phase 1: Identify factors affecting learning and self-regulation patterns during periods of uncertainty.**

Research design – This will be the data collection phase, during which financial professionals will be asked to complete three standardised surveys. First survey will gather data that identifies the perceived factors that affect learning during periods of uncertainty. The second survey will be an adaptation of SRLMQ (Milligan & Littlejohn, 2014) that will measure the self-regulation during uncertain times. The third survey will measure the various aspects of intergenerational activities, such as barriers in intergenerational communication, efficiency of learning approaches, usefulness of co-creative space etc.

Time commitment – Each practitioner participant would take around 30 minutes to complete the three surveys.

- **Phase 2: Creation of framework to support informal learning**

Research design – Based on results from Phase 1, a framework that supports informal learning techniques and accounts for perceived factors affecting self-regulation and intergenerational learning will be created. Research partners from the industry will be actively involved in this phase to obtain feedback on the framework in the form of semi-structured interviews.

Time commitment – The duration of semi-structured interviews will be around one hour.

- **Phase 3: Intervention study that tests the framework created in the second phase**

Research design – Practitioners agreeing to participate in this research will be divided into two groups. Each group will be given a scenario depicting uncertain periods and asked to work on the ethical decision making process. One group would be given the supporting framework and opportunity to collaborate with peers in the decision-making process. The other group will be asked to work out the answers in isolation, without the supporting framework.

Time commitment – Each session will be approximately one hour. Practitioner research partners will be actively involved in the designing the experimental scenarios, and can expect to spend a total of two hours, including preparation and execution.

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