

REVIEW



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

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Heading for a fall?

Strong recent performance in property markets may hide dangerous structural weaknesses, *page 12*

Christopher Adams

US states' debts could be the next big global economic threat, p11

Regulatory load

As compliance costs increase, some firms are finding opportunities, p16



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Informal enquiries may be made to Professor Malcolm Brown, Head of SMSAS on + 44 (0)1227 823508 (direct line) or e-mail: M.S.Brown@kent.ac.uk

Informal visits to the School are welcomed.

Further information is available from our website: www.kent.ac.uk/jobs Minicom users please telephone 01227 824145.

Closing date for completed applications: **25th March 2011.**

Interviews: **are likely to be early May.**



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University of
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Baby boomers: job blockers?

CISI OPINION

The coalition Government's haste to abolish the default retirement age will replace one wrong with another

IT IS ABSOLUTELY right that there should be a review of the compulsory retirement age. Today, more people than ever before are older than 65 and each year that total will increase – for at least the next 15 years – as the post-war baby boomers reach retirement age. Medical and social advances mean that 88% of those born 65 years ago are still alive, compared with 78% in 1981. Furthermore, since 1981, the further life expectancy of those reaching 65 has risen by four years to 19, so the average 65-year-old should see their 84th birthday. Simply, there are more people in the older age groups who are living longer and are fitter, smarter and often more affluent than their predecessors. Today, many of those at retirement age might choose to work. Others may need to, particularly as their pensions and savings need to last longer and may not be sufficient. We do deteriorate as we age, however, although at very different rates. 'Senile' derives from the Latin word for an old person. It is an inevitability of life that, just as one marvels at the speed of learning and achievement of a new born, the reverse happens as we age.

Flexible solutions

Therefore, just as society insists on a minimum age level before people can join the workforce – an age at which an individual is believed to possess the necessary basic skills to contribute and be safe – so it is reasonable to have a check and balance at the other end of the age spectrum. To reflect increased longevity, it should be introduced when an individual is 70. Of course individuals are, by definition, not all the same and shine in various ways at different levels and different times. It is wrong to assume that all those aged 65 are not fit to work and have to retire; and it is equally wrong to assume that all those over 65 are able to continue working effectively and safely. Scrapping compulsory

retirement at 65 – and having nothing in its place – will have an immediate and long-lasting detrimental effect on recruitment. If there are no leavers, then there will be no vacancies and ultimately no joiners, reducing job opportunities for the young. Internal promotions will decline and opportunities for career advancement will diminish as firms start to manage a new phenomenon: the job blocker.

Increased age, diminished returns

The pay structure in most organisations rewards individuals for their experience and competence. However, like property rents, it is a one-way street: upwards only. Taken as a group, workers over 65 are less

It is wrong to assume that all people over 65 are able to continue working effectively and safely

effective. This isn't an ageist statement but a medical fact. Yet, on average, they will be paid considerably more. They will also have higher ongoing employment costs, particularly for life and medical insurance, where premiums are at least three times higher when compared with those of a 45-year-old. In most cases, the older employee is relatively overpaid for their net contribution. Switching from a system where everyone aged 65 is forced to retire, to one where nobody needs to leave, is binary and too dramatic. A middle option is needed that recognises the requirement to redress the financial aspect, accepts that one size does not fit all

and encourages both parties to use some common sense. Instead of simply abolishing the default retirement age of 65, three things need to be in place.

Firstly, the employee and employer should talk about the future. This may involve an agreement to work part time, making use of the older worker's talents and experience, yet recognising that many – but not all – are unlikely to have the physical energy or desire to continue at the pace of the younger generation. If no agreement can be reached, the default position is that the employee will have the right to remain employed, but the employer may recalibrate the employee's salary by up to 15% to reflect the relative overpayment.

Secondly, to help further the overcompensation issue, the employer's national insurance contribution for those aged 65 and over should be reduced by 3% each year, falling to zero by the time an employee is aged 69. Thirdly, employment rights should be reversed at 70, with the onus now on the employee to make the case for remaining in work, but with no barrier to prevent the employee continuing to work if both parties agree.

By reforming the default retirement age, the Government is correcting a nonsense, but risks abolishing common sense. It needs to go further, recognising that the employee, employer and taxpayer are all in this together. ■





QUALIFICATIONS

CISI annual awards

Principal event sponsor



Mark Roelands



Cindy Schuster



Xiaojuan Chu



Deepa Chandrasekhar



Ross Mathison



Chris Bullock



Kathryn Bowley

More than 80 top CISI exam performers from around the world were recognised at the Institute's annual awards.

Ten of the prizewinners honoured at a ceremony on 28 February were from outside the UK. For the first time, there were winners from the Netherlands, South Africa, China and Bahrain. Dubai and India each had two; Lebanon and Spain also featured. The UK roll of honour had a strong regional presence. Scotland had 12 winners and awards also went to candidates from the North West, the North East, Yorkshire, the South West and the Channel Islands.

There were 50 categories and winners came from a range of firms. Bank of New York Mellon led the way - with seven prizes spread between five employees - followed by Morgan Stanley and Standard Life, with four awards each.

The award recipient from the Netherlands, **Mark Roelands**, Reporting Specialist, Bank of New York Mellon in Breda, secured three prizes, a feat matched by only one other winner. He was among winners of Asset Servicing within the Investment Administration Qualification (IAQ) - now known as the Investment Operations Certificate - the overall IAQ title and Over-the-counter Derivatives Administration. Mark said: "I'm thrilled. These qualifications will be beneficial to my future career and are already helping me in regulatory reporting of institutional investors."

The South African winner was **Cindy Schuster**, a wealth manager in Cape Town (International Introduction to Investment Award) while **Xiaojuan Chu**, Analyst, Morgan Stanley in Shanghai, China was joint winner of the IAQ Principles of Financial Regulation category.

Bahrain's winner was **Deepa Chandrasekhar**, Senior Vice President, Chief Compliance Officer, United Gulf Bank, Manama. She gained the Dubai International Financial Centre Rules & Regulations Award.

She said: "The global financial crisis has turned the spotlight on chief compliance officers. It's extremely important to be aware of the regulator's rules and regulations, not

only in the home country, but also various jurisdictions in which the bank operates."

The second winner of three awards was **Jeff Connor**, Managing Director, Principalis Asset Management, London (Investment Management, Principles of Financial Regulation and Certificate in Investments).

Award winners in Scotland included **Ross Mathison**, Global Dealing Manager, Standard Life Investments, Edinburgh (IAQ and Introduction to Investment).

The highest accolade, the Overall Masters in Wealth Management, was won by **Chris Bullock**, Chartered MCSI, Ethical Investment Manager, Rathbone Investment Management, Bristol. He also came top in Applied Wealth Management.

A new award, Risk in Financial Services, was shared by **Bryan Lee**, Chartered FCSI, Group Risk Manager, Rensburg Sheppards, Liverpool; **Helen Lloyd**, Adjudicator, Financial Ombudsman Service, London and **Kathryn Bowley**, Analyst, Guernsey Financial Services Commission.

Business analyst **Lucia Antalik**, won the Introduction to Investment (Further Education) category, for which she studied at Belfast Metropolitan College through her employer Citi.

CISI Chief Executive Simon Culhane, Chartered FCSI, said: "I'm delighted to celebrate the success of so many talented individuals and it's a testament to the global nature of financial services that so many winners are from outside London and the UK."

Ruth Martin, CISI Managing Director, added: "More than 35,000 CISI exams were sat in 2010, so these award winners really have something to celebrate. We wish them all the best in their careers and in their continuing professional development."

Held at London's Mansion House, the Institute's 18th annual awards ceremony featured as key speaker Alderman Michael Bear, Lord Mayor, City of London. The principal event sponsor was BPP Business School.

For a full list of award winners, see page 29.

60-second interview

with: **Nick Holder**, Chartered FCSI, Chief Financial Officer for Prudential in Ho Chi Minh City, Vietnam



Q How important to Vietnam is the financial services industry?

It plays an important role, contributing to Vietnam's

continued growth and economic development and providing a source of employment for the country's young and increasingly educated workforce. In the life insurance industry, for example, we employ more than 1,500 people and have 80,000 sales agents. There are many life insurers, retail banks, securities firms and consumer finance groups in the market, both domestic and foreign, and this number is likely to increase.

Q What are the key strengths of the sector?

The Vietnamese are disciplined savers - a cultural phenomenon prominent across Asia. In 2008, gross national savings accounted for almost 30% of GDP. This illustrates the need for sound financial advice and planning in the country, including in asset accumulation, wealth protection and income generation.

Q What is the industry's main challenge?

The sector is relatively nascent, and understanding of financial services at household level is still developing. For example, the life assurance market opened up only 11 years ago. Financial groups and the Government are working to support the industry's continued expansion.

Q What can we expect from the next five years?

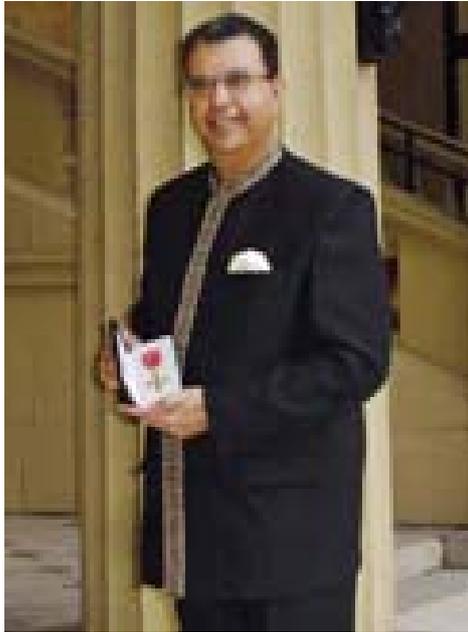
The demographics and economic trends favour continued growth. There is increasing affluence among the country's 90 million people. Moreover, the economy is forecast to grow by more than 9% on a compounded basis between 2008 and 2020. These factors bode well for the sector.

78%

The proportion of 27 firms surveyed by the CISI last year that operate a formal CPD scheme meeting FSA recommendations under the Retail Distribution Review. Individuals should undertake at least 35 hours of CPD



AWARD



Member honoured

Deepak N Lalwani, Chartered FCSI, displays the OBE after receiving the honour from Prince Charles at Buckingham Palace.

Deepak, Director - India at Lalcap in London, won the recognition for his contribution to the financial services industry in the UK and India. He is recognised within the sector as a leading authority on India, having specialised in that market since 1995. Deepak is also an executive board member of the UK-India Business Council, which promotes trade and investment between the two countries.

ETHICS

CISI code of conduct

The CISI code of conduct was introduced in June 2005 in conjunction with the Worshipful Company of International Bankers, whose then Master, the late Lord George of St. Tudy, was also an Honorary Fellow of the Institute.

In 2009, the FSA considered the introduction of a uniform code of conduct for financial advisers as a part of the Retail Distribution Review. The Institute considered its code with a view to including those core principles proposed by the FSA which were not already covered.

Notwithstanding the subsequent decision of the FSA that a specific code was not, in

fact, appropriate, the CISI decided that the changes it had been reviewing should be introduced. Consequently, a revised code of conduct is now effective and a copy is being sent to all members this month, together with their new membership cards.

These revised principles, which the CISI shares with the Worshipful Company of International Bankers, will be known as the Lord George Principles in recognition of the contribution made by Lord George to the promotion of high standards of integrity.

The code of conduct can be viewed in the Ethics section at cisi.org

MEMBERSHIP

New card design

During March, the CISI will send its members an upgraded membership card with a new design, three new colours and a brand new function. To improve service to you, and more accurately record attendance at CISI events, your membership card will now carry a barcode.

From 1 April, when you attend an event, get your card scanned on arrival and your CPD hours will be automatically recorded to your personal CISI CPD log. Your card has also been designed to double as a name badge. Cardholders and lanyards will be available at every event for your use. All you need to do is remember your card.

For further information, visit cisi.org/cards



FUNDRAISING

Lord Mayor's Curry



Tempt your taste buds and help raise money for a good cause by booking a place at the fourth annual Lord Mayor's Big Curry Lunch.

The event, on 6 April at London's Guildhall, will be held in aid of ABF, the Soldiers' Charity. The target is to raise £205,000 for current and former servicemen

and women and their families affected by the conflicts in Afghanistan and Iraq.

The buffet lunch, for 1,200 diners, will be held between 12pm and 3pm. To buy tickets, each priced £95, and for further information about the lunch, visit bigcurry.org/lord-mayors-big-curry

MEMBER DETAILS

Keep us posted

Have you recently moved house or changed jobs?

If so, please don't forget to update your CISI membership record.

Members can check the personal details currently held by the Institute at cisi.org/onlinebooking (please note that you will need your membership number and password to gain access to this facility).

A change of personal address can be registered online and a request to update employer details made to the CISI.

CPD AUDIT

Keeping track

Christian Scott, CISI Professional Standards Executive, explains the importance of CPD auditing and how scheme users can spare themselves a stressful audit

"Your CISI CPD log has been selected for audit" is not the subject line you would ideally want to read in an email. Yet these words have greeted more than 500 members of the CISI's CPD scheme in the past year.

Actively auditing members' logs is central to maintaining the scheme's credibility. The CPD auditing selection operates on a risk-based approach and 15% of the CPD logs that close each month are selected for auditing. Members are given 30 days to collate their

evidence and return the audit pack.

Completing and passing the CPD audit demonstrates that members have undertaken the required amount of professional development to a high standard. For individually Chartered members, it is compulsory to log CPD on the CISI scheme if they wish to retain their Chartered status.

The key to completing a successful audit is having the right supporting evidence for logged entries. It can be time-consuming to locate previous emails or correspondence confirming logged non-CISI CPD activities, especially in cases where you have no supporting evidence. Keeping a file of relevant supporting evidence for each activity will help you if you are selected for audit.

A considerable number of members complete their CPD logs retrospectively, in bulk and when their log is about to close. As a result, they miss out on the opportunity to use the log as a planning tool for organising the year's

professional development and are unlikely to have collated any supporting evidence for logged non-CISI CPD activities.

For example, where a member has attended a non-CISI event that counts as 'active learning', the ideal type of evidence for the entry is a copy of the certificate of attendance or an email from the event provider confirming attendance.



Stephen Cemm,
Chartered MCS1
Director, Authorisation,
Qatar Financial Centre
Regulatory Authority

"As a Chartered member based in Qatar, my access to pre-accredited CPD activities is limited, so it wasn't a huge surprise when I was notified that I was being audited.

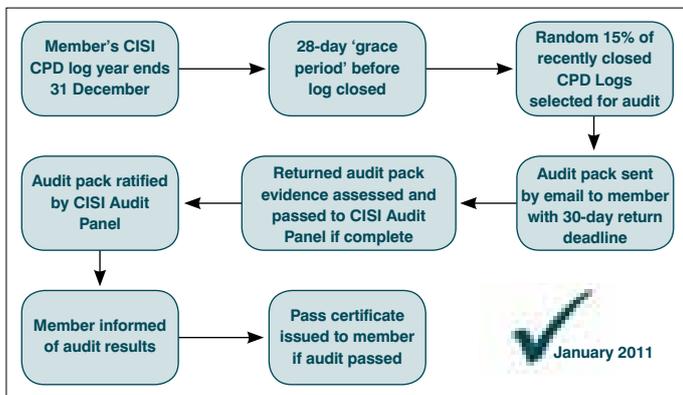
"In the past, I've tended to note down what should count for CPD activity during the year, but then I would retrospectively assess the activities against the learning elements and log them towards the year end. This process didn't necessarily include the collation of any supporting evidential paperwork.

"The audit process itself proved to be straightforward and flexible, allowing the submission of various types of evidence, reflecting the diverse nature of the CPD activities undertaken.

"The whole exercise has been beneficial in three ways: it has provided an assurance that I have been recording credible activity; reinforced the need to keep better records in future; and encouraged me to be more organised by endeavouring to log activity as the year unfolds."

For more information about CPD auditing visit cisi.org/mcpdaudit

Confirmation of booking, or a copy of the invitation, are generally inadmissible as they do not prove attendance.



Based on a typical CPD log, this flow diagram explains the CPD auditing process

ONLINE

BEST OF THE BLOGS

1 spectator.co.uk/coffeehouse

Fraser Nelson finds that your perspective on the economic health of the country can be a matter of which indices you choose to look at. Pitting Purchasing Managers Index (PMI) data released on 1 February against the Office for National Statistics's downcast preliminary Q4 GDP figures, Nelson concludes that the British economy is "not in some cuts-induced recession but, instead, doing rather nicely". Corporate liquidity figures also indicate that the deposits-to-debt ratio is now "back to normal". He warns that the real economic test will be what happens when interest rates start their "dangerously delayed" march back up to 5%, but argues that, "insofar as it's possible to determine a pattern, Britain is heading for economic growth of about 2% this year – not good, and not bad".

2 prospectmagazine.co.uk/blog

Tom Streithorst argues that the interests of the financial sector have hypnotised us into believing that inflation is always terrible. He claims that the Bank of England should maintain low interest rates in spite of the rising cost of living, as inflation of between 4% and 6% is precisely what our stagnant economy needs. "The biggest reason to welcome inflation is that, in real terms, it lowers the cost of our debts, allowing us to repay them in depreciated

currency," he says. By lowering our debt burden and raising the value of real – as opposed to monetary – assets, inflation reduces the strain on our personal balance sheets, raises our equity, increases our wealth and, as a result, gets us spending. So could higher inflation actually be the solution?

3 economist.com/blogs/blighty

The Economist blog finds the Bank of England under pressure to push up the base rate in order to "redeem its reputation as a doughty inflation-fighter", but believes that such a move would be "misguided". Although inflation expectations have risen, average earnings are rising at well below their usual rate, by only about 2% a year. With unemployment at close to 8% and the public sector shedding jobs, it is hard to envisage inflation building on itself through higher wage demands. "The Bank of England may have got its inflation forecasts wrong, but its policy of keeping monetary settings ultra-loose remains the right one, until it becomes clear – probably by late summer – that the recovery is weathering the fiscal consolidation. Then and only then should it start gradually raising interest rates," says *The Economist*.

Do you have a blog recommendation?

Please send it to the Editor: hugo.cox@wardour.co.uk

SELECT BENEFITS

Take a break

Fancy getting away from it all? You can bag yourself a bargain break thanks to CISI Select Benefits.

Superbreak, the UK's number one for short breaks, is offering exclusive discounts on 3,600 hotels in 800 locations across Britain, Europe and beyond. CISI members can secure a further 10% discount on already best-price-guaranteed deals, so there is no need to shop around.

Golfbreaks.com, Europe's largest golf travel company, is providing a 5% discount on golf trips; prices start from as little as £69. Choose from 950 venues in the UK and worldwide, ranging from five-star hotels to self-catering resorts, as well as breaks suited to large groups. Quote 'CISI' to receive your 5% discount.

superbreak.com golfbreaks.com

For more information about how to obtain these deals and other savings, visit cisi.org/memberlogin.

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CLAY 'MUDLARK' HARRIS

gets the back story on HSBC's Garo Karabeyekian MCSI

Garo Karabeyekian had moved from job to job in operations at some of Europe's biggest investment banks before he had the light-bulb moment that changed the course of his career.

His ability to spot opportunities for standardisation in a diverse global environment reflected both his experience in the back office and his excellent educational background, about which he had often kept quiet.

Garo, now EMEA Control Manager for HSBC's global markets operations, grew up in Cyprus in a family of Armenian descent. Since Cyprus followed the English secondary education model, he came to the UK for further study, getting his first degree in Accountancy and Finance at the University of Essex.

He went on to take an MBA at Keele University. "Once I finished, my plan was to go back to Cyprus, find an interesting job and settle down. Before I did that, however, I decided to stay in London for six months, which turned into 14 years."

Garo started, on contract, as a traders' assistant on the bond desk at Merrill Lynch. He moved on to fixed income

operations at Credit Suisse, where he worked in asset services – an experience that he considers to have been his real introduction to operations. He spent a couple of years there and got his first taste of supervisory responsibility.

Garo then went to Deutsche Bank for another couple of years, before moving to ABN Amro, which offered him the opportunity to put his education to more use. ABN Amro's London

"Six months in London turned into 14 years"

investment banking business was establishing new operations centres in Mumbai and needed someone to manage the process. He got the job, became more involved and realised that this was what he enjoyed doing.

When the ABN Amro project came to a close, Garo took voluntary redundancy. After a few weeks spending time with his wife and new son, he went back into the job market, joining HSBC in operations.

His initial role at HSBC was in equity asset services, followed by derivatives operations. Before long, however, his international experience meant that he was offered a secondment to Kuala Lumpur, one of the bank's operations hubs. He took his family, and a six-month posting turned into a year.

"Global standards should not only cover systems and processes, but also people and competencies," Garo says. "This involves a high standard of training and ongoing support. It will also never work without a genuine commitment from senior management, something that HSBC offers."

While in Kuala Lumpur, Garo became Acting Regional Head for fixed income and equity operations. This led to another role in foreign exchange/money market operations back in London, before he was appointed Manager for Strategy, which involved establishing operations best practices throughout HSBC offices in EMEA. He is now in a similar control role.

"Hard work, intelligence, common sense, flexibility and integrity" are Garo's keys to success in operations. "Being optimistic helps as well!"



Garo Karabeyekian
MCSI

Manager, EMEA
Control, Global
Markets
Operations, HSBC

Do you have a
back office story?

✉ mudlarklives@hotmail.co.uk

Illustration: Luke Wilson

PUBLICATIONS

Regulatory update

The latest CISI *Regulatory Update* is now available in the members' area of the CISI website.

Big regulatory changes that alter business models and practices are taking up senior management time. All managers need an overview of these and their drivers, to evaluate the many recommendations they receive from their Compliance and Finance departments. The *Regulatory Update* provides this – you read only the articles you want.

Regulatory activity covered from the last three months includes the FSA Remuneration Code and new limits on large exposures and client money changes.

Firms are advised to prepare for new significant influence function appointments. Also highlighted are new approaches to the suitability of advice and alternative investment funds. The *Update* details: actions now needed from the FSA; other UK,

EU and global changes that shape regulation; changes in the next six months that firms need to prepare for.

The *Update* additionally has sections on regulatory changes in specific financial sectors, such as asset management, corporate finance, hedge funds, private wealth management and retail intermediaries.

📄 View the edition at cisi.org/regupdate



EVENTS



From left, guest speaker Peter Sissons and Guernsey Branch President Justin Oliver, Chartered FCSI

Guernsey annual dinner

Former television newsreader Peter Sissons made headlines himself when he starred as guest speaker at the annual dinner of the CISI's Guernsey branch.

Almost 500 guests attended the event, held at Beau Sejour Leisure Centre in St Peter Port.

Justin Oliver, Chartered FCSI, CISI President in Guernsey, provided an update on branch activities, while Kevin Moore, Chartered MCSI, CISI Director of Global Business, spoke about the work of the Institute.

More than £6,000 was raised from a raffle for Home-Start Guernsey, which provides practical and emotional support to local families.

David Roberts

Senior Consultant,
Towers Watson

Ask the experts...

ANNUITIES

The requirements on pensioners to buy annuities are set to change

The Government has an interest in people saving for their retirement because it wishes to minimise the number who call on means-tested benefits in retirement. This means that if it doesn't wish to force people to save, then it needs to offer them an incentive to do so. That incentive takes the form of tax relief and it is more generous for pensions than for other forms of savings, simply because a greater incentive is needed. Pension savings are locked away until at least age 55 and, once put into payment, at least 75% of the accumulated fund must then be used to provide a (taxable) income for life.

Converting a pension fund into income often takes the form of buying an annuity, but this route is perceived by some as offering poor value. There are three main issues:

- ◆ the income stream normally dies with the annuitant and so, where death occurs 'early', pension instalments paid might be significantly less than the annuity purchase price
- ◆ annuities need to be backed by very secure (low-yielding) investments, resulting in rates lower than many expect
- ◆ the annuity price is dependent on factors and conditions in force at the date of purchase; there is no adjustment to reflect changing conditions in the future.

An alternative to annuity purchase is income drawdown, where individuals can draw an income directly from the fund (within an annual upper limit, broadly comparable to an annuity), leaving the remaining fund invested. On death, any residual fund can be passed to beneficiaries (with a tax charge).

However, income drawdown is not suitable for everyone. It must be reviewed regularly and to outperform (or even match) an annuity, a more aggressive

paid as lump sums on death. The result was that most people had little choice but to buy an annuity by 75, and annuity purchase is still widely referred to as being compulsory.

From April 2011, there will be significant liberalisation. Members will be able to put off taking any pension income indefinitely. New drawdown rules will apply, with the same upper income limit before and after age 75. Furthermore, the tax charges on funds payable on death after age 75 will be less penal. But, perhaps most significantly, once someone is receiving guaranteed aggregate income from private and state pensions of at least £20,000 a year – the 'minimum income requirement' – there will be no restriction on the amount they can withdraw from their pension fund. If they wish to withdraw the entire fund, they will be able to do so (with up to a quarter of this tax free).

The finer detail of the new rules has yet to be confirmed, but what is clear is that the divide between pensions and other forms of savings is narrowing. This is good news for proponents of choice and flexibility, but may yet undermine the rationale for generous tax reliefs. Only time will tell.

Members will be able to put off taking any pension income indefinitely

investment strategy is needed. Thus drawdown is suitable only for those capable of taking on the associated risks, in other words those with large funds or other significant assets.

When drawdown was first introduced, the package of rules included that benefits must be annuitised by age 75. In 2006, this was removed, but highly restrictive post-age 75 drawdown conditions were put in place with lower income limits and potentially very high tax charges on funds

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

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Q1 Shareholders typically have a number of rights. Which ONE of the following is NOT one of them?

- A) Share in the company profits by receiving any declared dividend
B) Maintain, appoint or remove the directors of the company at an AGM
C) Have first call on the assets of the company if it is liquidated
D) Receive a scrip issue in proportion to their existing holdings

Q2 In the US, the Sarbanes-Oxley Act:

- A) Bans transactions in the shares of their companies by insiders completely
B) Allows insiders to trade in the shares of their companies as long as they disclose that they have done so within ten business days
C) Allows insiders to trade in the shares of their companies as long as they disclose that they have done so within two business days
D) Allows insiders to trade in the shares of their companies as long as they disclose that they have done so within one business day

Q3 Capital gains tax is normally payable on gains on disposals of all of the following by a UK resident, except:

- A) A second home
B) Shares in a UK company
C) Shares in an overseas company
D) A motor vehicle

Q4 The three broad categories of market abuse are:

- A) Insider trading, misuse of information and market manipulation
B) Obtaining inside information when not authorised to do so, misuse of information and market manipulation
C) Insider trading, obtaining inside information when not authorised to do so and market manipulation
D) Obtaining inside information when not authorised to do so, misuse of information and market manipulation

State *slide*

Hard times for many major US states could produce the next global economic threat as bondholders in the \$3,000bn US municipal market take flight

WHAT WILL BE the next big, unforeseen risk to slap us in the face? ■■■ Not the eurozone debt crisis: the bad news is factored in. Nor the risk of a double-dip recession in the UK. But how about the financial collapse of California, or of Illinois, or of a string of indebted US states unable to pay their bills? ■■■ Even as eurozone leaders try to thrash out a solution to the crisis that has led to the rescues of Greece and Ireland, investors including Warren Buffett and hedge fund manager Jim Chanos have identified a 'tail risk' that really is worth paying attention to. ■■■ If they are right, then a sleepy backwater of the financial system may be on the verge of a crisis to rival Europe's. For the states concerned, after the worst recession in decades ravaged tax revenues and saw federal support withdrawn, this could be a year of reckoning.

■■■ At one level, their difficulties are common to national and local governments elsewhere: how to balance annual budgets when taxes are falling short and spending on benefits is high. ■■■ But there are added elements. Even before the financial crisis, pensions, healthcare and retirement benefits for millions of public workers were already under-funded in some states, by as much as a trillion dollars, according to a study from US think tank the Pew Center.

■■■ Recession has only added to the strain. The collapse in America's housing market, where prices have tumbled faster and further than in the UK and much of Europe, means property revenues have all but dried up. ■■■ As a result,

states including Illinois and California are contemplating – or have recently announced – sweeping cuts to public spending and tax rises to plug deficits.

■■■ But, and this is the nub of the issue, they must also maintain interest payments to banks and other lenders who have financed expenditure.

■■■ The fear is that some borrowers are likely to default on their obligations or declare bankruptcy. That, in turn, could lead to financial instability as municipal bond investors realise that the debt they considered almost impervious to the risk of principal loss might not be worth what they thought it was. ■■■

The possibility is being taken seriously by the likes of banking analyst Meredith Whitney, who famously predicted that Citigroup would melt down in October 2007. She has forecast "hundreds of billions of defaults" in the municipal bond market.

■■■ The comparison with Greece is tempting. But it is not so straightforward.

■■■ Athens could decide not to honour its obligations, albeit by leaving the euro. But in the US, in many cases, publicly held debt is, by law, high in the pecking order of payments that states and cities must make. It is worth remembering, too, that Greek government debt was a staggering 115% of GDP at the end of 2009 and expected to rise further without emergency action. No US state is yet in that position. ■■■ States,

moreover, have a strong track record of repaying their bonds. Another study says there are no modern instances of a state defaulting on its general obligation debt. Between 1970

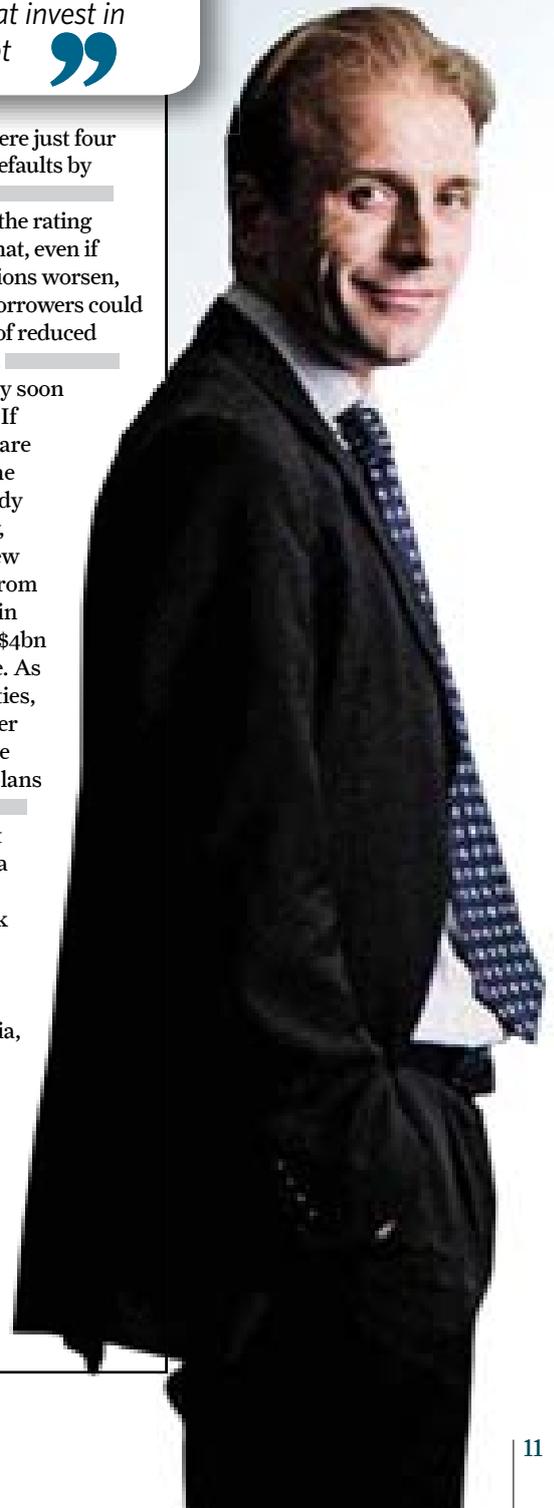
“ In January, investors withdrew record amounts from funds that invest in municipal debt ”

and 2009, there were just four municipal bond defaults by cities or counties. ■■■ Indeed, Moody's, the rating agency, has said that, even if borrowing conditions worsen, most municipal borrowers could weather a period of reduced access to markets. ■■■

That thinking may soon be put to the test. If investment flows are any guide, then the markets are already jittery. In January, investors withdrew record amounts from funds that invest in municipal debt – \$4bn in one week alone. As a result, states, cities, hospitals and other public bodies have put fundraising plans on hold. ■■■

Moody's says that Illinois, California and Arizona *do* pose a market risk because they rely on selling bonds to fund operating budgets. California, the largest state economy, aims to stay out of the market until the autumn. Wise move. ■

Christopher Adams is the Financial Times' markets editor



Firm *foundations?*

Branded the asset class that nearly destroyed the financial system, property was never going to have an easy road to recovery. Prices are rising again, but concerns remain about an industry perceived as chronically illiquid and hobbled by debt, says **David Wigan**

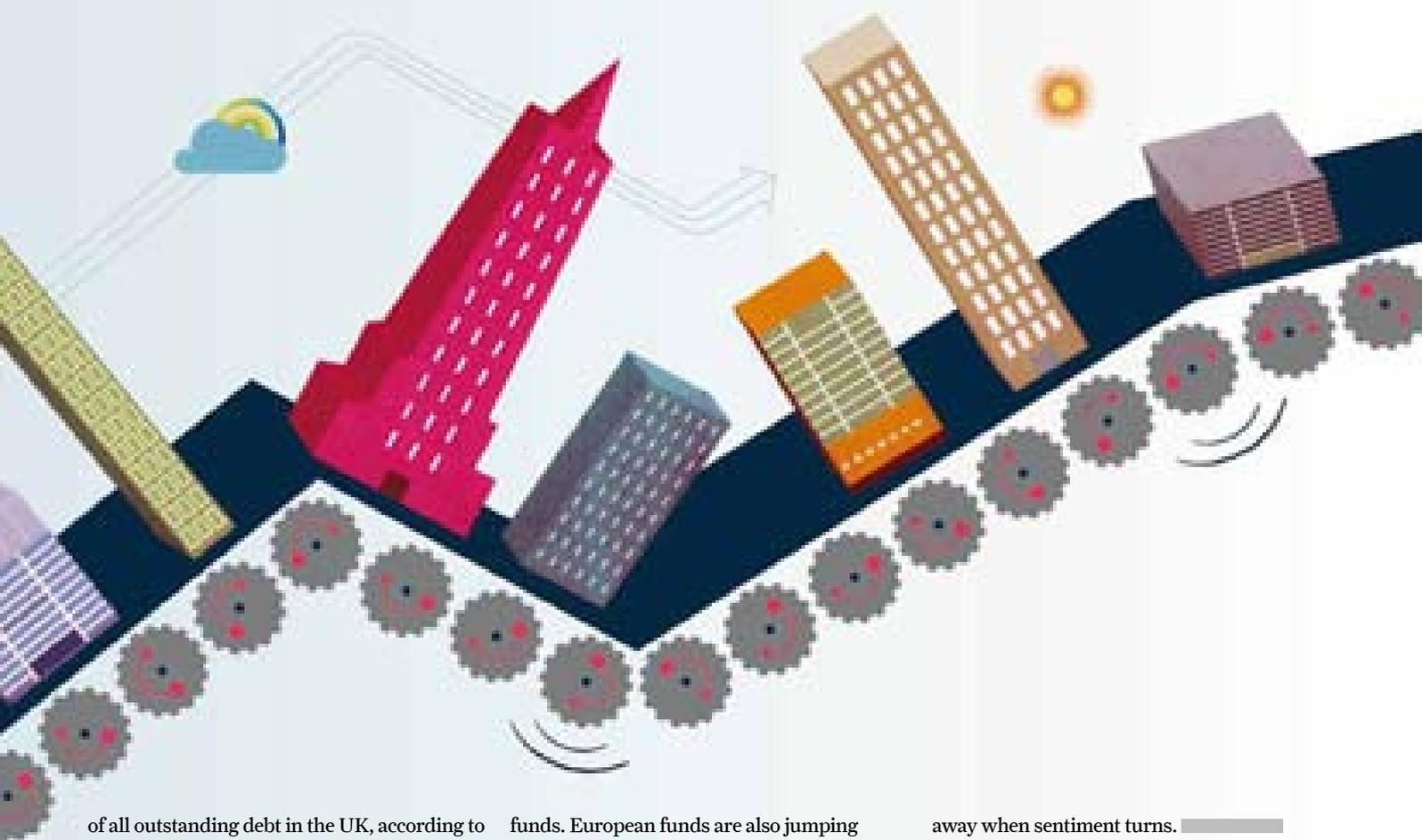


VALUES OF COMMERCIAL property rose in 2010 at their fastest rate since 1994, led by London's commercial market, according to Investment Property Databank (IPD). The average value of shops, offices and warehouses increased by 6.9%, the first rise in four years. Total returns, including price gains and rental income, rose by 14.5%.

For many, the rises were a return to business as usual for an asset class that had known years of success. In the period from 1992 to 2006, property was the UK's top-performing asset class, outperforming equities and gilts over three-, five-, ten- and 15-year timeframes,

according to the University of Ulster Real Estate Initiative. Property was also the least volatile investment, with standard deviation on total returns of 6.1%, compared with 15.8% and 10.2% for equities and gilts respectively.

In the boom years, the search for yield fuelled securitisation and non-physical investment and, before long, a bubble carried property to unprecedented highs. In Europe, the unlisted property funds sector more than doubled between 2002 and 2005, to 427 funds. Commercial property lending at the end of 2006 accounted for more than a third of loans to private non-financial companies and 10.9%



of all outstanding debt in the UK, according to Capital Economics. As investment rose, debt spiralled; the aggregate value of outstanding debt secured on commercial property at the end of 2006 amounted to £172.1bn, with a further £18.2bn securitised, De Montfort University reported.

Crisis in property

With such high levels of leverage, the credit crisis hit the industry hard. Liquidity evaporated and valuations plummeted. From the third quarter of 2007 to the end of the fourth quarter of 2008, the aggregate capital return, as measured by the Investment Property Databank Quarterly Index, was minus 40.1%. The steepest quarterly decline was 14.4%, in the fourth quarter of 2008.

Fund investors were hit twice, first by valuation declines of up to 45% and then by a wave of redemption suspensions, as many funds ran out of cash. Managers that shut the gate included Scottish Widows, Norwich Union and Standard Life.

"The crisis highlighted the fact that there are points in time when commercial real estate will be illiquid," says Richard Kirby, Manager of F&C's Guernsey-registered Commercial Property Fund. "Illiquidity is not uniform, however; for example, listed funds continued to trade." Now, as investors consider the recent turnaround in prices, property funds are once again seeing inflows. Property was the bestselling sector last October and November, according to the Investment Management Association, with Schroders, Cordea Savills and Aberdeen Asset Management among managers launching

funds. European funds are also jumping on the UK bandwagon, with Germany's Commerz Real buying Birmingham's One Snow Hill office development in recent weeks.

Investors should, however, assess carefully the various routes to market, all of which contain challenges. These include open-ended funds, close-ended funds and Real Estate Investment Trusts (REITs), introduced in Australia as long ago as 1971 but launched in the UK in 2007. REITs pay no corporation or capital gains tax on the profits made from property investment, and the majority of the large listed firms,

away when sentiment turns. "The problem for open-ended funds is that, when the market rises and money flows in, they are almost forced buyers," says Peter Cosmetatos, Director of Policy at the British Property Federation. "When the market falls and money is withdrawn, they can become forced sellers." Mark Meiklejohn, Property Investment Director at Standard Life Investments, adds: "The industry as a whole is not particularly well managed when it comes to the mismatch of cash and liquidity. So as not to prejudice investors, we don't have cash in our funds until we have

assets, and we fund new purchases with the waiting list."

Listed funds and REITs, meanwhile, come with their own challenges, as they can be affected by macro issues unrelated to property, and move in line with the wider equity market.

A red flag over property funds was recently raised by John Forbes, Real Estate Funds Partner at PricewaterhouseCoopers, who

pointed out that the real estate industry faces huge refinancing costs in the next two years, along with rising complexity as syndicated loans and commercial mortgage-backed securities mature. With banks under pressure to reduce risk, Forbes believes that the real estate industry faces a period of significant challenge. Property consultancy DTZ is also concerned about the huge levels of debt in commercial real estate, which it estimates to be US\$6.8trn globally, mainly in Europe and the US. Of this, more than a third (US\$2.4trn) is

Quarterly property derivative trading volumes hit £756m in the third quarter of 2010, versus £300m in the second quarter

including British Land, Hammerson and Land Securities, have made the conversion to REIT status. From an investor perspective, one of the advantages of REITs, alongside close-ended funds, is their apparent stability compared with their open-ended counterparts. They rise and fall with their share price, whereas open-ended funds are exposed to cash management issues caused by the structural illiquidity of the property market. This puts fund managers behind the curve, as cash pours in when sentiment is widely positive and drains



due to mature between 2011 and 2013, and DTZ estimates a funding gap of \$245bn.

Moreover, with loans often exceeding property value, banks cannot simply sell physical stock to reduce debt. Lloyds, which has become the UK's largest property lender since acquiring HBOS, has placed about half of its £60bn commercial property loan book in a business support unit, meaning that loans are impaired (or are likely to be). After collapsing during the credit crisis, amid huge losses sparked by the demise of Lehman Brothers, property derivatives in the form of swaps, futures and structure notes have in recent months showed renewed signs of life.

Quarterly property derivative trading volumes hit £756m in the third quarter of 2010, compared with £300m in the second quarter, according to the Property Derivatives Interest Group. The OTC derivatives market is dominated by UK trading, with £731m worth of trades in the third quarter of 2010, compared with some £35m worth of trades in France. The privately negotiated market is largely based on swaps, where total notional outstanding is about £8bn, compared with more than \$400trn in interest rates. Eurex launched property futures in February 2009, and open interest reached 1,429 contracts in the third quarter, worth about £72m.

Laying the foundations

One of the early movers in the UK property derivatives market was Barclays, which in 1994 looked to hedge its physical portfolio by issuing so-called Property Index Certificates that referenced the IPD Annual index. A full menu of property derivatives developed in the wake of the Barclays initiative, with trading reaching a peak of £7.7bn in 2008. Unfortunately for the market, a leading counterparty in property derivatives was Lehman, and investors lost heavily when the bank went bankrupt.

"Volumes suffered significantly following the collapse of Lehman Brothers, which was active in the space," says Jon Masters, Head of Property Derivatives at BGC Partners. "That knocked a lot of people for six." The most popular

derivative format is the total return swap, in which the buyer pays a fixed annual premium, for contracts usually in the one- to five-year range, based on a notional contract size. The investor receives the annual total return of the relevant IPD index.

Property derivatives offer lower transaction costs than other investments and the ability to go long or short, but they face challenges related to pricing, as even industry cheerleader the Property Derivatives Interest Group (PDIG) has acknowledged.

"The subject of pricing in the derivatives market is complex," PDIG says in its publication *Trading Property Derivatives*. "Pricing theory is likely to develop further as the market matures ... and a longer time series of pricing is recorded. Current pricing may be a function of an immature market and exceptional property market circumstances."

Still, managers of some open-ended funds have used property derivatives successfully to hedge cash positions. Scottish Widows Investment Partnership (SWIP) is one manager that has sought new mandates over the past year to buy derivatives in a bid to manage cash flows.

"Cash was dragging performance, so we got the mandate and allocated £60m to buy a structured note at the beginning of April for the calendar year 2010," says Stewart Cowe, Investment Director at SWIP. "We took a view that the market would rise and paid about 7% entry cost. It looks like we are going to make a return of more than 14%." The SWIP fund preferred to buy a note than enter a swap, as the latter would involve putting International Swaps and Derivative agreements in place, explains Cowe. Even after a period in which commercial property posted its strongest-ever six-monthly gain, it is important to remain cautious, according to Nomura's Head of Real Estate Europe Mike Prew. Property valuations have been inflated by the Bank of England's £200bn quantitative easing (QE) programme, which depressed sterling and lowered bond yields, Prew said in a note. As QE comes to an end, a currency recovery might lock out overseas buyers, while rising gilt yields and higher interest rates could make property look expensive. ■

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Taking the *right tack*

Investment management firms are facing tough regulatory headwinds. Many aren't happy but some see opportunities, says **James Gavin**

WHEN JAMIE MATHESON, Chartered FCSI, Executive Chairman of Brewin Dolphin, announced the firm's preliminary results for the year ended 26 September 2010, the resulting headlines focused little on the impressive 43% rise in profits. Matheson used the moment to fire a broadside at the escalating regulatory costs affecting the industry. By sticking its head above the parapet, Brewin Dolphin – which reported regulatory costs at 6% of its turnover – has aired widespread, if unspoken, resentment at the financial impact of steadily increasing regulatory requirements on investment managers. These include detailed rules on retail firms following the financial crisis and the new FSA regime of supervision that followed. London-based research firm ComPeer estimated total wealth managers' compliance costs at \$2.92bn in 2009, 3.6% of total net revenues. With sparks flying, the collapse of Keydata, a provider of structured products, has lit the tinderbox. Investment managers have had to pay huge funds towards bailing out some 30,000 investors who bought a derivative product missold by Keydata, which exploded and left the Financial Services Compensation Scheme (FSCS), funded by industry contributions, with a £247m clean-up bill, swelling the interim levy required for 2010/2011 to £326m. IFAs hit the cap on their contribution to the pot, so fund managers and stockbrokers had to pick up the balance. Brewin Dolphin has said it cost the firm £6m, Rathbones £3.2m and Charles Stanley £2.6m. IFAs have also felt the pain. Alan Lakey of IFA Highclere Financial Services says: "The FSCS levies are creating an ever-increasing burden on an ever-decreasing number of advisers. I know of a financial adviser who has been charged £51,000 as a result of the Keydata fiasco." There have been FSCS levies before (last year there was an interim levy in respect of two investment advisers who failed for £38m) but in this case, Keydata's business was focused on income plans and the resultant levy was double that of the previous largest year. The FSA is reviewing how firms pay contributions to the FSCS, and this episode is likely to sharpen the debate considerably. Only last month, real worries about how the FSA is approaching regulation were revealed

in a survey of firms by the FSA Practitioner Panel. While most firms believe in the benefits of strong regulation, the survey demonstrates concern that the FSA was increasing the intensity of regulation, and that this was being unnecessarily applied uniformly across the industry, irrespective of the relative risk that a firm posed. Among retail firms, 68% thought regulatory costs were "excessive"; 37% had seen their regulatory costs increase by 25% or more in the past two years.

The Retail Distribution Review (RDR) has spawned a spate of discussion and consultation documents since the review of how retail investment products are distributed to consumers was launched in 2006. Many feel these are excessive. "With the latest set of discussion papers and proposals, the FSA is starting to over-meddle. It is over-engineering the rules to such a point that they will give rise to distortions between different sectors, and between different types of distributor," says Julie Patterson, Director of Authorised Funds and Tax at the Investment Management Association (IMA).

Dealing with the RDR

"People are asking themselves: why subject yourself to this barrage of outgoings? You will get people leaving the industry because of the cost of the RDR," says Lakey. The RDR will apply to all retail product advisers. The claim of FSA Chief Executive Hector Sants FCSI(Hon) in November 2010 that the RDR may result in up to 20% of IFAs exiting the market has acted as a lightning rod for concern. The recent decision by Barclays Bank to close its financial planning business may be a precedent for others. The FSA's aim with the RDR is to ensure that advisers are paid only by their customers, and not by the provider to sell its products. Advisers would also have to describe the range of products they advise on and increase overall professional standards. But the effect of the loss of 20% of IFAs seems likely to fall disproportionately on services for smaller clients, who will be less profitable for firms to deal with. If IFAs shift from taking commission on products they sell from the provider to a commission or fee paid by the client, obtaining financial advice may become more expensive (depending on how





much producers reduce their annual charges). Mooted fees of £200 per hour for advice will be unaffordable for many. "There is considerable concern about access to advice at the lower end of the mass affluent spectrum and among ordinary consumers with small amounts to save. It would be an awful outcome if that whole sector ended up having no choice other than to use direct sales forces," says Patterson. IFAs are an important source of introductions to stockbrokers, and they may take over more of a financial planning role if there are fewer IFAs. They will also face cost pressures, which may limit their willingness to take over smaller clients. But while providing financial advice to smaller clients may become too expensive, a new breed of investment managers is shaping up to join stockbrokers in providing investment services. For Max Weatherby, Chartered MCSI, Senior Investment Manager at Hawksmoor, a fund and investment management business founded in 2008, the RDR represents an opportunity to differentiate the firm's value proposition. "Our offering to IFAs is that, if they don't have an in-house investment team, then outsourcing their clients' portfolio management to a trusted partner is a sensible option," he says. IFAs retain the all-important client relationships while outsourcing the investment management functions. "One of the consequences of the RDR is obviously that IFAs are going to have to demonstrate that they have a credible investment process. For some, it will be a challenge to service the needs of clients, especially the smaller ones, in a way that is consistent with all the other various directives." Outsourcing is also starting to attract even the larger IFA firms, which see it as a means of satisfying the requirements of some of their smaller clients, says Weatherby. Smaller clients are certainly fair game for Vestra Wealth, a London-based wealth manager providing the same offering. "We aren't just looking for clients with more than £100,000 to invest, we offer a service to all the IFA's clients," says Vestra Investment Manager Jim Mackie, Chartered MCSI.

New model

Mackie notes that the emergence of platforms has made it easier for investment managers to offer IFAs model portfolios via an external platform that carries out the custody, dealing and administration, limiting the administration costs associated with smaller clients. "This works very well for an adviser's smaller clients as their money can be placed into one of our five risk-graded models," says Mackie. The FSA is, however, concerned that such models should be suitable for each client. By giving up discretionary management to firms such as Vestra, IFAs reduce their business risk. "The IFA is a general practitioner, whereas all we do is investment," says Hawksmoor's Weatherby. "We don't have any other distractions, so the odds should be stacked in our favour in terms of doing a better job." Not everyone is convinced that the RDR is opening

the industry to a smaller, leaner breed of investment manager: the IMA's Patterson says that, for the most part, fund management is too competitive for most smaller asset managers to make a business out of these smaller tickets. But the current slew of regulation is forcing the industry to change rapidly; IFAs are redrawing their relationship networks, facilitated by the changing operational landscape provided by platforms. If the juggernaut of regulation continues, so will the chorus of disapproval. But stockbrokers should watch out for the innovators seeking opportunity from change. ■

Too many masters?

The RDR will require that, where advice is considered independent, recommendations be based upon a "comprehensive and fair analysis of relevant market data". Where advice takes account only of selected products, this restricted nature should be made clear to the consumer. The FSA has further introduced an 'adviser charging' system, which means the adviser will only have one relationship – with the client (who will pay the adviser) – and will not be paid by the provider for the products the adviser recommends. The FSA has had to listen to a growing chorus of concern from within the industry about the impact of the RDR, which has become a focus for wider anxiety about excessive regulation.

There is particular concern on the part of firms that will be subject to oversight by two regulators under the new regime, to be introduced by the end of 2012.

The Smaller Businesses Practitioner Panel (SBPP), set up by the FSA to represent the interests of smaller firms, highlighted concern about the regulation of firms that will be split between the Consumer Protection and Markets Authority and the Prudential Regulation Authority in its evidence to the Government and, separately, the Treasury Select Committee.

Guy Matthews, Chairman of the SBPP, explains: "This is firstly in terms of firms having to deal with two regulators rather than one, and secondly, in the introduction of a new weakness in regulation with the divide between prudential and conduct.

"Business models of small firms are not split in that way, so hazardous patterns could be missed by supervisors."

A recent SBPP survey found that firms that had had contact with the FSA over the previous six months were more satisfied than those who had not, but uncovered a growing unease with greater scrutiny. "Firms generally viewed an increase in supervision as necessary in the current financial climate," says Matthews. "However, there was also the view that the FSA had moved beyond its risk-based approach and was now supervising in lower-risk sectors too."

CV snapshot

2009 – Chairman, National Association of Pension Funds
2009 – Managing Director, BlackRock
2006 – Chairman, Code Committee, Takeover Panel
2005 – Awarded OBE
1996 – Joins Barclays Global Investors (BGI) as Chief Executive, Europe
1994 – Appointed Chief Executive, BZW Asset Management
1987 – Joins Barclays de Zoete Wedd (BZW) Investment Management
1981 – Senior Investment Manager, Provident Mutual
1976 – Senior Consultant, Metropolitan Pensions Association
1974 – Assistant Actuary, Commercial Union
1972 – MA in Mathematics, St John's College, Cambridge

Saving grace

Lindsay Tomlinson, Chairman of the National Association of Pension Funds, tells **Hugo Cox** why the Government needs to make pension schemes simpler, more collaborative and better equipped to meet their long-term goals

WHEN BLACKROCK BOUGHT Barclays Global Investors (BGI) in June 2009, Lindsay Tomlinson, who had been BGI Vice-Chairman, knew he would take a less prominent role at the new firm. So, that month, he accepted the role of Chairman of the National Association of Pension Funds (NAPF). Among the first tasks he set himself was to construct an 'elevator pitch'.

"The point was to imagine what I would say if I found myself in an elevator with Angela Eagle [the then Pensions Minister], with one minute to pitch the way forward for the UK pensions industry," he says. The first suggestion, he explains, would be to simplify the state pension arrangements, as they are currently "too complicated and employees don't understand them", which is an obvious disincentive towards making contributions. He also believes that the Government should issue more long-dated index-linked gilts to equip schemes more effectively to meet future obligations. Aggregation is a third recommendation. *Fit for the future: NAPF's vision for pensions*, published in March 2010, recommends a small group of 'super trusts'. These would be collections of major pension funds that would rival the National Employment Savings Trust (NEST), the new Government-initiated low-cost pension scheme through which employers can meet their legal obligations for pension provision, effective from October 2012. By clubbing together, schemes achieve a scale that will allow them to bring down costs and organise themselves more

effectively. Better corporate governance would be one benefit, Tomlinson explains, reiterating an argument first presented to CISI members when he spoke at the Institute Annual Lecture last September: "Having a governance structure is expensive and few small pension funds can afford it, so the key to better governance is aggregation." (Not that aggregation would have made for better stewardship before the crisis, he notes: "It was the engaged shareholders, in particular, who were encouraging more cautious firms, such as HSBC, to take on greater borrowing levels.") A statement of stewardship principles will also help. Tomlinson recommends the adoption of those laid down by the Institutional Shareholders Committee in the Stewardship Code produced by the Financial Reporting Council, of which Tomlinson is a non-executive director. While the point of Tomlinson's pitch is to carry around a pithy and upbeat action plan for making the industry better, there is certainly a lot to worry about. To discuss the industry's problems, you sense that the NAPF boss would need at least a train journey to Eagle's Wallasey constituency near Liverpool. The shift from defined-benefit (DB) to defined-contribution (DC) schemes, to which most NAPF members now seem committed, will make things worse. "The problem is that people don't appreciate how much pensions cost. So in the switch from DB to DC that's now taking place, contribution rates are being dramatically lowered, with the expectation that people will still be able to retire



Photo: Johanna Ward

in their 50s and 60s,” says Tomlinson. “Meanwhile, members of the baby boomer generation have promised themselves too much with the schemes now due to mature.”

The Government is, to some extent, looking at how to resolve this. It announced in January that the default retirement age of 65 will be scrapped from October this year; this will help by extending the period of time over which people pay into their pensions and reducing the period over which they draw from it, releasing some of the pressure exerted by the

Asset managers are obliged to mark to market instruments they may not need to sell for 50 years

disproportionately large baby boomer cohort now reaching retirement. “In general, however, the Government has left itself little room for manoeuvre after a sustained regulatory and tax assault on pension schemes has removed many of the safety valves that allowed pensions to adjust their liabilities,” Tomlinson states. Measures such as outlawing firms from reducing payouts to early leavers and forcing the indexing of benefits have left the Government with few options. And because pension liabilities must be reported on firms’

balance sheets, it is hard for individual companies not to de-risk, reducing their ability to meet future liabilities. The predicament is well demonstrated by the Government’s recent attempt to revisit the indexing question last year, when it considered whether to reduce scheme liabilities by allowing final salary pensions to tie their benefits to the slower-to-inflate Consumer Prices Index (CPI) rather than the traditionally used Retail Prices Index (RPI). In December, the Government decided against the move, saying that it would damage public confidence – and make people less inclined to save for their pension – if companies were to switch to RPI-linked payouts in cases where scheme rules do not already allow this. The Government may have made a rod for its own back by focusing excessively on protecting scheme members, but Tomlinson believes that it could still make a big difference by changing mark-to-market accounting and solvency standards.

Valuation

When it comes to thinking about future liability risk, Tomlinson has the eye of an actuary – the role in which he was initially trained. “At the heart of the problem,” he says, “is the requirement for asset managers to mark to market instruments that they may not need to sell for 50 years. This makes it very hard for schemes to take a long-term view.” Buying more bonds now to immunise liabilities in the distant future does not appear to be a sensible long-term strategy, nor does it allow long-term pension investors to help dampen short-term market volatility. The strategy punished pension funds during the financial crisis, as they missed opportunities to buy undervalued equities, and it deprived UK stock markets of a valuable countercyclical force at a time of steep price falls. Certainly, allocating more to equities than bonds means taking on more liability risk. “But there will always be a risk that you can’t pay the benefits; you need to accept that risk and run with it,” Tomlinson observes.

Prohibiting pension funds from mark-to-model accounting is especially hard to swallow given that this model is allowed for most assets held by banks, even though their liabilities tend to be short-term. “The banks’ question was urgent, so they were allowed to mark to model even though they may need the money tomorrow,” explains Tomlinson. “The pension question is important but not urgent, so they were forced to mark to market even though they may not need the money

Rising force

Tomlinson has enjoyed a front-row seat at the Government assault on pension schemes by virtue of the central role he has played in the development of index investing in the UK, which culminated in an OBE for services to fund management in 2005.

A maths graduate who trained as an actuary, Tomlinson was drawn to quantitative management in the 1970s. At the time, it was underdeveloped and appeared highly esoteric to what Tomlinson describes as a “fund management industry where a major part of the job, as far as I could see, was your ability to ingest a good deal of very expensive wine”.

But as the industry became more professional and the great march of quantitative fund management gained steam, Tomlinson found himself a valued member of the vanguard. He was the fifth person to join Barclays de Zoete Wedd, Barclays’ investment banking arm, to work on indexing in 1987. “We saw the exemplars of Wells Fargo and StateStreet working in the US and asked: ‘Why can’t it work over here?’ I found a lot of like-minded people who were attracted to this idea and, in time, we persuaded the market that this was the right thing to do.”

There was, he stresses, no long-term plan and he benefited from a good deal of fortune. “By a series of accidents, I got into the bit of the river that was flowing very rapidly, and that was a great help,” he recalls.

The fast current led him to Barclays Global Investors (BGI), where he was Vice-Chairman by 2003, having overseen the firm’s emergence as a leading indexing investment firm. Indexing had graduated from an esoteric offshoot of academia to a place at the heart of every manager’s portfolio theory (for example, the inclusion of ‘Scientifically Driven’ in Tomlinson’s lengthy BlackRock job title). BlackRock’s acquisition of BGI in June 2009 allowed him to concentrate on his external responsibilities, and he was appointed Chairman of the National Association of Pension Funds (NAPF) the same month.

for 50 years.” Current monetary policy places further stress on scheme liability calculations, a connection that the Government is reluctant to recognise. “The deficit in local government pension schemes has nothing to do with their assets that they hold,” says Tomlinson. “It is caused by the valuation of the liabilities, which has fallen with long-term yields. Since it is Government policy to hold down long-term interest rates, they can’t be too surprised that the consequence is big pension deficits.” Tomlinson has only a few months left in post: the NAPF Chair switches every two years. But there is still time for him to meet current Pensions Minister Steve Webb in a Whitehall lift. You could be confident that Tomlinson would spend his minute well. ■



THE COST OF *giving*

The new UK Bribery Act will increase the scrutiny that financial services firms must show towards their gift and entertainment policies. But its effect will be limited, says **James Gavin**

A UK-REGULATED investment bank selling emerging market securities arranges a three-day trip for 20 of its top clients to the capital city of one of its main markets. The programme includes a seminar about the local capital market, a wine-tasting evening in the countryside, tickets to a Formula One race and fine dining. After the trip, the clients are called and offered deals on which the margins they would earn are well above market rates.

■ This scenario could risk falling foul of the new UK Bribery Act, according to a report from Transparency International, a non-governmental anti-corruption organisation, on its implications for the City. It argues that, in this scenario, the prosecution could argue that the trip was a bribe to obtain or retain business.

■ Though it might be difficult to prove intent to induce improper conduct,

investment banks fear that it may become increasingly difficult to offer clients hospitality in cases like this. ■ The Bribery Act 2010, due to be implemented in April 2011, has been delayed by the Ministry of Justice in the wake of requests from businesses that more details be provided about how the provisions would actually work. ■ The Act sets out four offences, of which the last two are new since the previous Act:

- ◆ bribing another person
- ◆ being bribed
- ◆ bribing a foreign public official
- ◆ failure by a commercial organisation to prevent bribery.

The only defence is to demonstrate that the firm had in place 'adequate procedures' to prevent bribery being committed. ■

The current review, though not altering the terms of the Act, will provide clearer guidance on its application, addressing current concerns. ■ "We support the idea

behind tackling bribery but the Government is seeking to apply a one-size-fits-all approach to business, from small and medium enterprises up to multinational corporations, without recognising the differences in how those companies operate or the markets and countries they are active in," says Richard Cook, Director, Financial Crime at the British Bankers' Association. ■ Experts say that, because the financial services sector has a risk-based approach embedded in its business model, compliance with the new Act will be easier there than for sectors such as defence



be seen in the same light. “The financial services sector is big on moving people around the world, which requires visas, permits and interactions with officialdom in places where there is scope for being invited to do the wrong thing,” says Will Kenyon, Partner, Forensic Services at PWC.

The issue of hospitality is raised by analyst ‘away-days’ and similar trips, where bank and asset manager analysts of firms are invited by those firms on trips to familiarise themselves better with the company. In these cases, there is a need to define what entertainment is, says Burger. “How lavish is it? An expensive trip, first class all the way, may start alarm bells ringing. In particular, you need to consider whether this entertainment was intended to induce the improper performance of a duty.” To help protect themselves, firms receiving gifts could require that any worth more than, say, £250

Investment banks fear that it may become increasingly difficult to offer clients hospitality in some cases

are disclosed and secure several internal levels of sign-off. “You have to take a proportionate approach to the implementation of corporate criminal legislation: at this range, are you really going to influence the acquisition of a new piece of business?” says Burger.

The Serious Fraud Office (SFO) has already said it won’t prosecute small one-off facilitation payments and aims to bring civil rather than criminal law cases for transgressors. “The SFO has said repeatedly that it is not concerned about technicalities such as the value of a bottle of wine,” says McDaniel. “It is interested in repeat use of gifts and entertainment as a way of trying to improperly influence a business decision. That’s the key issue for investment banks – it’s the intent and circumstances as much as the value.” More importantly, the SFO, notably through comments by its head, Richard Alderman, has been at pains to stress that the main target of the new legislation is the facilitation payments – essentially bribes – that enable foreign companies to win contracts overseas. This should assuage fears that the principal impact will be to crack down on businesses providing entertainment to clients and potential clients through ‘away-days’ or similar hospitality in their home markets. Further confidence should be provided by Alderman’s pledge to provide information to firms concerned that they may be in danger of transgressing the new Act.

It’s no surprise, then, that advisers such as PwC caution against over-interpreting the Act. “The draft guidance makes some quite clear statements about the recognition of reasonable levels of hospitality and promotional expenditure for the purposes of showcasing goods and services and enhancing cordial relations. Those are recognised as being a normal and acceptable part of business life,”

says Kenyon. Defining the upper limits of corporate hospitality is, nonetheless, a challenge for compliance officers. “What might be lavish for a small firm could be deemed appropriate for a larger business,” says Cook.

Surplus to requirements?

Critics of the new Act claim that existing FSA regulations deal adequately with bribery and that the new legislation is unnecessary. They point to a case in January 2009, when the FSA fined insurance broker Aon Ltd £5.25m after finding it in breach of Principle 3 of the Financial Services and Markets Act 2000. ‘Suspicious payments’ of about \$7m were paid to both businesses and individuals in six countries, including Bangladesh, Burma and Vietnam, according to the FSA.

Crucially, the investigations did not find that Aon had made corrupt payments, but rather that the company had failed adequately to

protect itself from the risk of such payments being made.

This reflects the same focus on ‘adequate procedures’ taken by the new Act.

“The new Act will increase the burden on the regulated sector considerably, and there’s

already a lot of work being done in relation to compliance, with anti-money laundering and data protection issues,” says John Horan, Director of CAML Global, an anti-money laundering department, and a former detective specialising in money-laundering investigations. There are some practices that will require scrutiny under the new Act. Transparency International suggests that those occurring between securities brokers and their clients are one such area. But firms should be wary of arguments that they now face a huge and expensive load on their compliance departments.

“This shouldn’t be a massive sea change for your business,” Horan says. “You should look around and see what procedures are in place to tackle other types of corporate criminal legislation, such as money laundering, the Fraud Act, and financial sanctions obligations. You can use these to mitigate your obligations under the Bribery Act.” ■

industries. “Given the sector’s history and the regulatory regime in the UK, I’d say that firms are accustomed to having procedures and controls in place regarding sanctions and money laundering issues,” says Brent McDaniel, KPMG UK’s Head of Anti-Bribery and Corruption. “However, knowledge of your risk in terms of anti-money laundering and sanctions gets you only part of the way to good controls and processes for bribery and corruption.” This means that effecting compliance with the new act will need extra resourcing and time at the top level, says Richard Burger, Chartered MCS1 and Senior Associate at Reynolds Porter Chamberlain LLP: “Senior management has to buy into the idea of combating bribery and corruption.”

Clarity needed

Financial services firms have lobbied for greater clarity about what constitutes an offence in a sector where corporate hospitality is integral to the functioning of many business relationships. The industry’s key concerns focus on hospitality and facilitation payments.

Facilitation payments are widely exempted from corruption legislation around the world, including in the US, but in the UK will be caught within the ‘bribery of a foreign public official’ offence. They are not a significant factor in the conduct of business in the financial services sector, being more common among suppliers of equipment in overseas markets. But there is fear that, in some cases, commission payments will

CISI elearning tool



The CISI has launched a module about the UK Bribery Act as part of its Professional Refresher

elearning tool. It is one of more than 25 modules that enable candidates to remain up to date with regulatory issues and changes, maintain compliance and demonstrate continuing learning. Other topics covered include anti-money laundering and market abuse. Visit cisi.org/refresher for prices or further information.



Checking the forecast

Numbers are king when making investment decisions, explains **Colin McLean**, Chartered FCSI, but they can sometimes mislead

SOME OF THE key ratios put out by companies are not always what they seem, and there are behavioural biases that can act against good analysis and decision-making. Analysts must overcome these human failings and, fortunately, there are ways of dealing with some of these biases – particularly in relation to search processes, overconfidence and teamwork. ■■■■■ With large numbers of analysts poring over public information, it seems to leave little room for adding value through fundamental research. Yet, often, information is overlooked or misinterpreted. In August 2010, for example, Halfords' share price fell sharply, but not because of a specific company announcement or analyst report. ■■■■■ It was the *Daily Mail* that effectively delivered the profits warning analysts had missed. Customer complaints reaching the newspaper highlighted the fact that Halfords' new distribution centre was in turmoil. After the press report, shares in Halfords underperformed market averages by 25%. ■■■■■ Even in the reported numbers, however, there can be problems. Many companies provide information that is meant to be helpful, but that can compromise research. Often, the headline numbers are not the statutory earnings per share that reflect accounting standards. Instead, management can highlight what they believe better represents underlying profitability, excluding

specific costs. However, many of these one-off costs do tend to recur. Reporting adjusted earnings can flatter results and distort valuation. Over time, this can give a false view of growth, and of the quality of earnings. Companies know that it is difficult for analysts to adjust back consistently to statutory earnings – what most companies call basic diluted. Over time, the adjusted numbers become the standard, particularly as most analysis is done on preliminary numbers and announcements, rather than on the annual report itself.

Misleading metrics

Where companies adjust earnings, over time investors typically pay for a much higher growth trend than is really evident in statutory accounting earnings. This is rife in some sectors that are prone to acquisition or have low capital intensity, such as business services. For most companies, incentives and rewards are based on the adjusted earnings. Analysts should look at the pattern of earnings adjustments over a period of several years, and also examine the precise basis on which management is incentivised. Some of the misleading metrics are more subtle. Management uses ratios so frequently that we do not question the basis of calculation. Yet, for some common metrics, there is actually no universally agreed standard. Companies can define for themselves what they present as same-store sales, order book or organic growth, for example. For these ratios, it is difficult for analysts to draw out information that is genuinely comparable with peers. Investors should think about how sales that come from Tesco vouchers, for example, might be treated. Should these really be included in like-for-like growth? Many of these measures sound simple, but are complex concepts. Growth is important

For some common metrics, there is no universally agreed standard. Companies can define what they present as same-store sales

but not always what it seems, particularly in the consumer sector. Retailers, pubs or DIY chains, for example, usually reach the target trading level after 12 months. After that, growth is typically dependent on trends in population and disposable income. But the UK is a mature economy, and it is that low growth rate that drives these units once they are up and running and operating efficiently. Organic growth, on a like-for-like basis, will be down at the 2% to 4% level. We should not, therefore, expect the underlying businesses to necessarily grow much faster than the economy, but they can have the illusion at times of doing much better, maybe about 10% per annum. Often that growth – because there is not much underlying growth within each unit – is made from rolling out new site openings. Many aim to expand their chain of restaurants or open new pubs – something that might be worthwhile for shareholders, but would be wrong to mix up with sustainable organic growth. That is why care is needed in interpreting ratios and comparisons provided by companies in the consumer sector.

It is not just the numbers that make analysis difficult. Language matters, because a lot of positive spin appears in the Chairman and Chief Executive's statements. The psychological impact of framing can mean that our subsequent analysis of the accounts is unconsciously influenced by initial perceptions. Once we have it in mind that we are looking at a growth company or one that has had a good year, we might not be alert to the reality that the full numbers reveal. Analysts should have a systematic plan to extract information from company accounts, and balance the words against the numbers. Company reporting is not the only challenge for analysts. Search processes have generally been overlooked yet play a big role in investment research and decision making. Having a structured search process and a clear way of incorporating additional information improves forecasting. Companies might volunteer data that is not comparable with their peers, and analysts are reluctant to disregard that. Sometimes too much management behaviour is incorporated in what should be objective research. How often do we see reports of 'management confidence', 'reassuring updates' or an 'upbeat tone' from an investor meeting. Some of these phrases can be useful shorthand to summarise good news from companies, but they are often indicative of journalism rather than analysis. Does 'management quality' really mean anything? This optimistic, but largely meaningless, language can lead analysts astray. A recent study by McKinsey, covering the last quarter century of US forecasting, showed that, each year, corporate earnings growth estimates have typically ranged from 10-12%, but the actual outcome was just 6%. Only twice, during post-recession earnings recoveries, have forecasts underestimated actual earnings growth.

Reducing bias

There are a number of ways to deal with analysts' biases in research and forecasting. It is encouraging that more research now includes some counter argument, as this is a good way of controlling overconfidence. Making clear forecasts that can subsequently be objectively assessed is important, and maintaining a record of analyses and decisions helps feedback. Underlying base rates – the economic averages – need to be recognised. The base rate might be GDP growth, or even recognising that, in the long term, most companies fail and there are risks to discounting growth far into the future. Forecasts need to recognise potential surprises. It is easy to discount risks that are complex and conditional. It is helpful to assign probabilities, and check that these stack up. Some scenarios might sound remote, but analysts need to check that they are happy assigning zero probability to an event. Behavioural finance can help investment professionals improve their analytical work. Human failings are hard to overcome, but can be tackled with systematic processes once analysts are aware of the hazards. ■

Colin McLean
is Managing Director of
SVM Asset Management Ltd



Finders, keepers?

THE VERDICT

What would you do if you found information that could boost your company at the expense of a rival?

THIS WAS THE question posed in an ethical dilemma featured in the January edition of the *S&IR*. In a poll on the CISI website, readers voted for the course of action that they would take; here, we report the outcome.

The scenario: Investment adviser Rachel has a chance meeting with Bruce, a wealth manager and former colleague at Azure, on the train and learns that he is suffering from stress. On leaving the train, Bruce thoughtlessly discards papers on which he has been working and Rachel, believing the documents are sensitive, retrieves them from the bin.

How you voted

The poll produced not altogether unexpected results: the majority of respondents (89%) chose not to make use of the information obtained. Additionally, a large number of respondents chose to write a comment to support their choice.

The results were:

- ◆ Return the papers to Azure's Compliance department: 35%
 - ◆ Return the papers to Bruce at Azure: 22%
 - ◆ Shred the papers and any copies that have been made: 32%
 - ◆ Keep the papers and make use of them: 11%
- Since more than 320 CISI members took part in the survey, the 11% who said they felt able to make use of the abandoned information represented a not-insignificant number. While this may seem shocking, it is perhaps surprising that the figure is not higher. At the CISI Integrity at Work presentations, which have been attended by more than 3,000 people, a similar scenario is presented, albeit at the corporate information level. The proportion of attendees voting to use a competitor's information is often close to 50%. Is the difference here that you worked with this person and their personal situation has made you more sympathetic towards him?

Justification for the various courses of action may be summarised as follows:

- ◆ Return the papers to Azure's Compliance department. Respondents suggested that you have a responsibility to the industry and the firm that overrides any consideration for the impact on Bruce, who was seen as the author of his own misfortune. There also seemed to be a touching faith that the Compliance department would take some action representing the 'greater good' of the industry, although there is little evidence that firms work like this!
- ◆ Shred the papers and any copies that have been made. This seems to be a sensible course of action and was the second most popular option. Respondents generally felt sympathetic towards Bruce and a number added that they would tell him what they had done. Some felt that they should also advise Azure's Compliance department, for reasons similar to those mentioned above.
- ◆ Return the papers to Bruce at Azure. The principal reasons offered for taking this course of action were that Bruce will learn from his mistake and that you will feel better for having helped him. Some comments suggested, however, that you should also tell his Compliance department, as they might choose to discipline him. But is that any of your business if you are not the regulator?
- ◆ Keep the papers and make use of them. Some slightly muddled thinking was on display here, suggesting that:
 - there was no personal information (in fact, all of the papers were personal)
 - you can use non-confidential information, but dispose of what is confidential
 - the Data Protection Act does not apply because this is not confidential information
 - you haven't done anything unethical to obtain the papers, so there is no reason why you cannot use them.

The CISI's recommended course of action: Shred the papers and call Bruce to let him know what you have done. Bruce's response should enable you to get a feel for whether he considers that he has done anything wrong. But, if you then feel that you need to involve his Compliance department, you might wish to examine your motives. ■



Hand in the till?

Here's another ethical case study for you to consider and respond to

You are the financial controller of a UK charity that has issued debit cards for its bank account to senior executives and the Chairman. The Chairman gives his time voluntarily and receives no remuneration. During your regular reconciliation of the charity's bank account, you come across a number of cash withdrawals over the preceding month, that relate to the Chairman's card. The withdrawals total in excess of £1,000, but you have received no receipts or other paperwork to support them. When you mention them to the Chairman's PA, she says that he has not said anything to her and she knows nothing about them. You are somewhat disconcerted by this and feel that you cannot ask the Chairman himself, since he is rarely in the office and has a deserved reputation for irascibility. Accordingly, you raise the subject

This is made more acute by the fact that the charity has limited resources and has just been advised that a government grant that had previously provided a significant portion of its income would not be renewed.

Trying not to be influenced by the fact that his five-year fixed term contract will shortly be due for renewal, the Chief Executive considers his options for resolving this situation. He considers them to be:

- to remind the Chairman that the terms on which the card is issued make him personally liable to the charity and ask

You notice withdrawals from the charity's bank account that relate to the Chairman's card

with the Chief Executive, who says that he will tackle the Chairman. About ten days later, the Chief Executive tells you that he has spoken to the Chairman, who said that he had no knowledge of any use of the card, which he has never used. He said that, as far as he knew, it was still in the desk drawer where he had put it when it was issued. He had later confirmed that it was still there. In the meantime, you had contacted the charity's bank, who had told you that the cash withdrawals had all been made at a cash machine in an out of town shopping centre. You advise the Chief Executive of this and remind him that the terms of issuing all cards to staff make clear that the cardholder is responsible for all payments charged to the card, and for any charges that are not reimbursed. In this case, the charge went directly to the charity's bank account, leaving the charity faced with a dilemma as to the appropriate action to take.

him to pay, saying that it would be difficult to enforce the policy against other staff if it becomes known that the policy has not been applied to the Chairman

- to write off the amounts in question as fees due to the Chairman, who has never been paid – although payments to the Chairman are permitted – without saying any more to the Chairman
- to write off the amounts in question and tell the Chairman that the charity will record it as fees, but will have to include it in information supplied to HM Revenue & Customs
- to tell the Chairman that, since it appears that the transactions are fraudulent, the charity has no option but to involve the police. ■

Which option would you choose? Visit cisi.org and let us know.

The results, together with the CISI's own opinion, will be published in the May edition of the *S&IR*, and will also be posted on the CISI website.

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Bank of America Merrill Lynch, King Edward Hall, 2 King Edward Street, EC1

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16 MARCH East Midlands

TBC

16 MARCH Manchester & District

TBC

22 MARCH East Anglia

NW Brown, Richmond House, 16-20 Regent Street, Cambridge

22 MARCH London

CISI, 8 Eastcheap, London EC3

Regional Events

16 MARCH Economic Forecast

Guernsey

Old Government House Hotel & Spa, St Ann's Place, St Peter Port, Guernsey

To book:

cisi.org/onlinebooking region@cisi.org +44 (0)20 7645 0652



Customers in focus for wealth managers

Do wealth managers place enough emphasis on the customer experience? This was the question discussed by more than 70 members of the CISI's wealth management professional interest forum (PIF) at their latest meeting.



Chris Garthwaite

Chris Garthwaite of CGA and Ewan Pearson ACSI of Grant Pearson Brown Consulting Ltd led a thought-provoking event. Attendees considered:

- how to put the needs of tomorrow's customers at the heart of a business
- the pitfalls of attempting to prioritise operational excellence, product innovation and client intimacy, with opinion divided as to whether the latter was actually possible
- what can be learnt from looking outside the industry to companies such as Apple.



Ewan Pearson

Participants were asked to complete a CGA survey, which revealed that only 40% of respondents' firms undertake research into understanding customers' attitudes, actions and attributes. Just one in ten involve customers in product or service development.

Slides from the event and the full findings of the CGA survey can

be viewed in the PIF Archive, located in the members' area of the CISI website: cisi.org/membersarea

Time spent reviewing documents in the PIF Archive can be logged as 'Reflective Learning' on the CISI CPD scheme.

Professional interest forums: future dates

The CISI's seven PIFs cover compliance, corporate finance, Islamic finance, IT, operations, risk and wealth management. Each PIF meets at least quarterly in central London to network over a light lunch, listen to presentations and discuss issues in a confidential setting. All events count as 'Active Learning' under the CISI CPD scheme and are free of charge for FCSIs, MCSIs, ACSIs and Affiliates. Students may attend one event of each forum annually.

Future meetings include:

- 16 March Compliance Forum
- 17 March Risk Forum
- 29 March Wealth Management Forum

More information can be found at cisi.org/pifs. To join the mailing list for any of the PIFs, please email pifs@cisi.org



Membership admissions and upgrades

MCSI

Barclays
Fraser Ford
Gary Power
Brewin Dolphin
Ken Oiwa
Brown Shipley
Julie Sebastianelli
Carrington
Stephen Laird
Charles Stanley
James Clark
CIGNA
Chandi Mwenebungu
City
David Willcox
Close
William Ladenburg
Deutsche Bank
Rachel Gradden
Gary Laing
Irene Steel
Fiske
Peter Cartwright
Goldman Sachs
John Kelly
HB Markets
Ian Jones
HSBC
Nicholas Cliffe
James Dickson
Andrew Morris
Jaganmohan Ramachandran
JM Finn
Simon Temple-Pedersen
Jupiter
Philip Gant
KPMG
Emil Kalimullin
MAP S.Platis
Alexandros Constantinou
Merrill Lynch
Torsten Boettcher
MPL
Edward Heath-Thompson
Public Securities
Siu Fai Lau
Quilter
John McElroy
Richard Thorn

Raymond James

Gareth McCaughey
Redmayne Bentley
Jonathan Bishop
Rensburg Sheppards
Nicholas Kidd
Jane Scolah
Rupert Stevenson
Sarasin
Lucinda Harris
Savoy
Trevor Sumption
SG Hambros
Duncan Shimmin
Smith & Williamson
Vicki Beveridge
Peter Lowe
TD Waterhouse
Tristan Davies
Turcan Connell
Peter Forrester
UBS
Debjani Raffan
James Wiegman
United Arab Shipping
Aninda Banerji
Winterflood
Yasar Bozaci
Others
Michael Collins
Melis Konstantinou
Armando Manalo
Leago Papo

ACSI

Berry
Aidan Dow
Bestinvest
William Scott
BNP Paribas
Alan Eadie
Mark Julian Fiddy
Veronique Leccia
Brewin Dolphin
Marcin Gierach
Max Ormiston
Ian Thompson
Brown Shipley
Graeme Bruce
Thomas Illingworth

Business Control Solutions

Jonathan Evans
C. Hoare & Co
Anna Koerling
Amy Shadbolt
CG
Richard Goody
Cheviot
Arthur Vestey
Close
Barnie Knoetze
CMPD, University of Dubai
Reza Chowdhury
Colchester Global Investors
Neil Halsey
DeVere
Nathan Tarr
DVB Bank
Lewis Sutherland
Edgbaston
Philippa Cowan
EFG Harris Allday
Brooke Hughes
Emirates NBD-Global
Training Centre
Leena A A Kalthoum
EuroClear
Kay Plowman
Evolution
Andrew Curran
Francesca Jamison
Finance Bank
Abbas Fahs
Fiske
James Gatehouse
Fleming McGillvray
Liam McDermid
Goldman Sachs
Jeffrey Wasserman
HSBC
Ben Jeché
Charlotte Platts
JM Finn
Thomas Holliday
Richard Smith
Jupiter
Christopher Thomas
Kleinwort Benson
Catherine Roe
KPMG
Fathima Sarah Afker

Jordan Buck
LingBridge
Gopi Amirthalingam
Lombard Odier Darier
Hentsch
Edward Goodchild
M&G
Gavin Hinder
Mercurio Capital
Paulo Leitao
Ministry of Agriculture
Osman Haruna
MoneyScience
Adrian Jaggard
Nomura
Owen Dudney
NYSE Euronext
Chinedu Nwachukwu
Old Park Lane
Zoe-Louise Alexander
Pershing
Alice Backhurst
Jayashree Chakra
Yadhu Nandan Chittur
Nanjundan
Michelle Conway
Psigma
Thomas Becket
Martin Ward
Quilter
Cheryl Hutcheson
Rathbones
Nehal Desai
Thomas Lovell
Raymond James
Pieter Burger
Redmayne Bentley
Kristian Powell
Francesca Preocanin
Andrew Swift
Rensburg Sheppards
Matthew Ellis
Christopher Flynn
Victoria Philp
Rowan Dartington
David Fraher
Royal Bank of Canada
Barnabas Reynolds
Smith & Williamson
David Golding
Brian McLean

Nicholas Rich
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Standard Bank
Elif Carr
Standard Chartered Bank
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Standard Life
David Lammie
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Thomas Miller
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Monika Winter
Union Bancaire
Daren Kean
Williams de Broë
Adam Brewer
Colin Lewis
Duncan Reid
Wipro
Amit Verma
Others
Kranthi Kiran Guggilla
Ozan Kazim
Hendrik Koen
Michal Krajcovic
Agherenwi Neba
Stephen Schlieman
Amanda Syers
Smita Valakati
Robert Woolf
Syed Raza Haider Zaidi

This list includes membership admissions and upgrades from November 2010. Chartered applications processed between 23 November and 31 December 2010 will be included in the next edition.

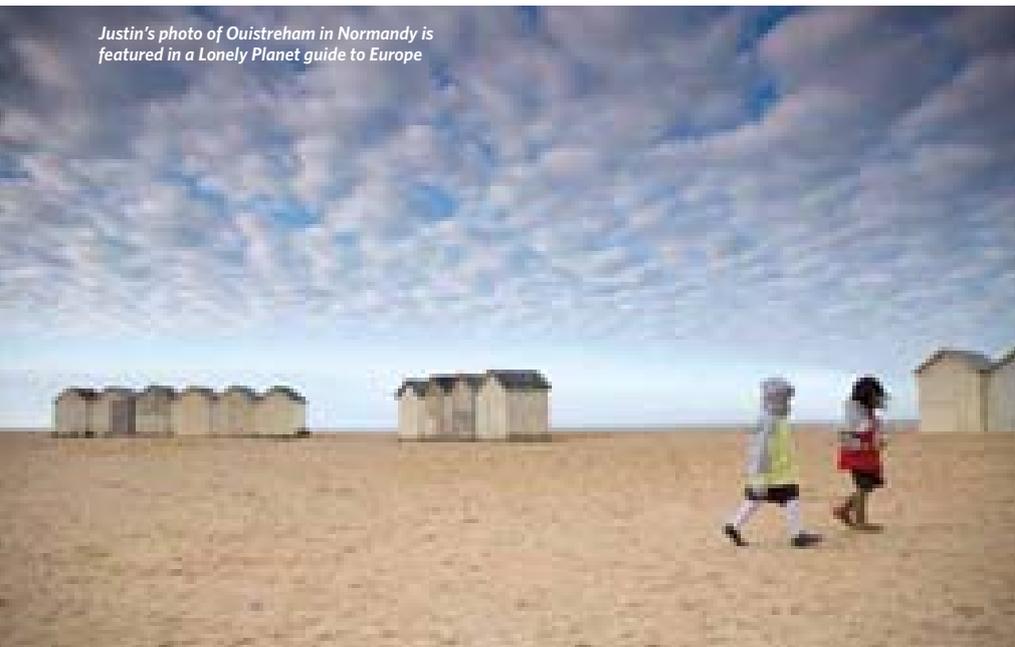


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| Corporate Finance Technical Foundations Certificate in Corporate Finance winner | Baker Tilly | Harry Florry ACSI Sachin Agarwal Diane Mak Samuel Paul Barnsley Henrik Persson | Peel Hunt Arma Partners Social Finance Citi finnCap |
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Justin's photo of Ouistreham in Normandy is featured in a Lonely Planet guide to Europe



Snap happy

Justin Hannaford ACSI has really clicked as a photographer, seeing the world through his lens. **Lora Benson** reports



Justin Hannaford

PICK UP A travel guide and you may see the destination brought to life through the photographic skills of Justin Hannaford. His work appears in three tourist books currently on the

shelves: the Lonely Planet overview of Europe, a Thomas Cook study of Porto and an introduction to Slovakia.

A front office business systems analyst for Royal London Asset Management in the City of London, Justin says: "For as long as I can remember, I've had a love of photography." He began to take the hobby seriously in 1993, when he bought his first film single-lens reflex (SLR) camera. "I used to spend my weekends exploring Adelaide, where I grew up," he says.

Justin moved to London in the late 1990s, beginning work at ANZ Grindlays and gradually moving into the IT side of the financial services sector. His big break in photography ironically resulted from his writing ability. He won a short story competition in the *Metro* newspaper in 2004, with the prize being a weekend in the French resort of Nice. "While I was in Nice, I was walking through the old town and took a photo across the façade of houses that won first prize in a photography

competition in the *Independent on Sunday*. What drew me to the image was the angle of the light and open shutters. I thought it was a typical representation of Provence.

"My reward was a commission to take photographs for the Slovakia guidebook, which was published in 2009. This was a huge breakthrough for me."

Travelling and photography have gone hand in hand for Justin and, whereas most of us might take off for a

quick weekend break without too much planning in advance, Justin's approach is different: "I do a lot of research before I travel somewhere, to work out the areas I want to photograph and not waste precious time in a location," he says. "I love cityscapes and trying to find a new angle on things - I'll often shoot somewhere

"Taking photos in minus 30 degrees Centigrade was a memorable experience"

more than once to ensure I have everything covered." He has visited much of Europe, South East Asia, most of North America and parts of Africa on his photography travels. "My favourite trip was to the Arctic Circle in Sweden. Taking photos of the Northern Lights in minus 30 degrees Centigrade was such a memorable experience, although it was so cold that I was limited by the time I could take off my gloves to adjust the camera settings. The Northern Lights were there for ten minutes and then disappeared, so I was very lucky."

A trip that also stands out was to the Okavango Delta in Botswana. "I was part of a group that had started out early and we had stopped briefly for breakfast," he says. "Two bull elephants suddenly came crashing through the bush towards us. They were only 100 metres away and I barely had time to scoop up my camera and backpack to escape. We ran for five minutes or so and, when we stopped in a safe place, I was still holding my full bowl of cornflakes!"

Justin advises anyone who is interested in photography to start simply. "Buy a cheap digital camera and get out and practice by taking plenty of photos. You'll then know whether you like it as a hobby before you commit to buying more expensive equipment." ■



This shot of shutters in Nice won him first prize in a competition in the *Independent on Sunday*



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