No. 1 JULY 1992

SECURITIES & INVESTMENT REVIEW

HUGH SMITH INTERVIEW • WADDINGTONS vs MAXWELL

SCOTTISH TRUSTS • STOCKBROKING IN THE 90s • BONDS

FINANCIAL FUTURES • SECURITIES INSTITUTE NEWS

A MESSAGE FROM THE GOVERNOR OF THE BANK OF ENGLAND

The diversity and sophistication of the securities industry is an important element in the City's overall standing as an international financial centre. If we are to maintain that standing - or, as I would hope, enhance it - we need to secure the highest standards of professionalism amongst practitioners. This means encouraging those entering the industry to develop their skills and knowledge and those who have greater experience to remain abreast of the latest developments. I would expect the Securities Institute, and with it this review, to play a significant part in achieving both these goals.

The Institute must clearly work within an environment already populated by trade associations, regulatory bodies (with their own standards for technical competence) and other professional groups. It will be important to establish harmonious and constructive relationships with these different parties. I hope that this review, by helping to promote informed discussion, will contribute to that process.

THE RT. HON. ROBIN LEIGH-PEMBERTON

C O N T E N T S

No. 1 JULY 1992

Cover: Blue skies over the City of London augur well for the country's securities markets

Production Editor: Clare Beesley
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Publisher: Alex Murray

PUBLISHED ON BEHALF OF
The Securities Institute
by Silverdart Limited
39 St. James' Place
London SW1A 1NS
Telephone: 071-491 2499
Facsimile: 071-491 2440

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Originated and printed by Reprosharp Ltd, London EC1.

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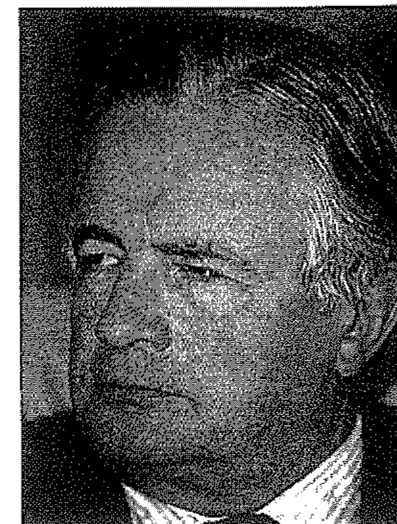

In a feature interview, the chairman of the Stock Exchange Sir Andrew Hugh Smith talks to *Securities & Investment Review* about the major changes facing the UK's securities industry, including regulation, structure and the membership issue.

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Welcome to the first issue of *Securities & Investment Review*, the official monthly journal of the Securities Institute.

If you are a member of the Institute, you will receive the magazine each month automatically as a benefit of membership. If you are not a member, you can subscribe by using the form contained in this issue.

At a time of great change in the securities industry, this review is intended to serve as a focus for members and all those involved in this industry. It is your magazine and contributions are gratefully received from all sources.

We will not be publishing an issue in August, so we will resume our monthly schedule in September – when we will be examining the future of the stock market, together with a special feature on information technology and systems.

Have a good summer and may the markets prosper!

THE PUBLISHER

GENERALE

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Issue to shareholders by way of rights of 34.7 million ordinary shares at 230p to raise £78 million to finance further investment.

The issue has been under-written by J. Henry Schroder Wagg & Co, Limited and the brokers to the issue are Rowe & Pitman Ltd.

EMAP is a media company publishing more than 80 special interest consumer magazines, over 50 business to business magazines and over 75 regional newspapers. It organises 25 business exhibitions, and owns radio stations in London and Liverpool.

Since the company's last equity raising in 1984, EMAP's compound annual growth rate has been:–

Turnover	16%
Profit before Tax*	22%
Earnings Per Share*	19%
Dividend Per Share	23%

During this period there has been an eight-fold increase in market capitalisation.

* *Before exceptional items.*

COMMENT

Do we need another City body to join the existing proliferation of official and quasi-official organisations? What will it do for its members? The first issue of Securities & Investment Review, which is the official journal of the Securities Institute, is a good moment to ask these questions.

The need for the Securities Institute originated from the unbundling of the roles which used to be undertaken by the Stock Exchange. Since Big Bang much of the Exchange's regulatory role has gone to the Securities and Futures Authority, its trade association role to the British Merchant Bankers Association and the Association of Private Client Investment Managers and Stockbrokers, and its role of promoting wider share ownership to ProShare, leaving the Exchange free to concentrate on the single role of providing an efficient and effective securities market and settlement system. The decision to end individual membership of the Exchange signalled the Exchange's withdrawal from its role as a professional institute and as the focal point for individual members. This left a void which the Securities Institute aims to fill, with the purpose of encouraging high standards of integrity and of competence and as acting as a focal point for members to meet on professional and social occasions – something which is greatly missed in this computer age. It is important that its membership reflects the securities industry in a broader sense, not just former stockbrokers.

So the answer to the first question – do we need yet another City body – is a resounding 'yes'; there is a vital job to be done, a job which is an important component of self regulation and whose success will benefit the whole UK financial sector.

Practitioner based self regulation brings many advantages to financial markets in the way of innovation, flexibility and speed of reaction. But greatly increased competition between participants in financial markets following Big Bang has put the self regulatory system under considerable strain.

To enable it to function efficiently, a self regulatory system benefits greatly from a means of interpreting standards as set out by one's peers. The Takeover Panel is a very successful example of this – but it also needs a college of peers, a professional Institute to which anyone who intends to make a career in the securities industry will aspire to belong, and which clients of the industry will regard as a hallmark of professional competence.

The Securities Institute is setting out to be such a college of peers, which will maintain the ethical standards summed up in the motto of former individual members of the Exchange – 'My Word is my Bond.'

So what more will the Institute do for its members? It offers a ladder of exams and training to meet the increasing demands of the regulatory bodies and to draw students on to further study. Furthermore by working with other professional institutes it will ensure that these are complementary with other professional qualifications.

To promote a community of interest within its membership, the Institute is launching this magazine to be both a forthright and provocative professional journal and a communication medium for members and their activities. In addition, the Institute will have its own offices in the City, including a room for the use of members.

The Institute is here to serve its members and through them the community – and its success is likely to be in direct proportion to the interest and effort of its members. We look forward to playing a crucial role in this country's securities industry in the years ahead.

GRAHAM ROSS RUSSELL
Chairman, Securities Institute

NatWest Stockbrokers

welcomes the foundation of

The Securities Institute

and wishes

SECURITIES
& INVESTMENT REVIEW

every success

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LETTERS TO THE EDITOR

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High standards and a broad base

SIR - I am writing to wish the Securities & Investment Review success in its objective of providing a focal point for Securities Institute members and for all who have an interest in securities markets. The Securities Institute has a real opportunity to build on the past achievements and experience of financial markets in order to encourage and ensure that high standards of professionalism, combined with integrity, are achieved and maintained in the future.

It is important that membership of the Institute should be keenly sought, none too easily attained and that the initials M.S.I. after a member's name will really mean something and represent a standard of excellence rather than being merely another set of letters. The Institute's membership should also have a broad base and be representative of a wide spectrum of interests within the securities industry.

I am sure that the Review will have an important role to play in supporting the Institute as it seeks to establish itself and I wish it every success.

JOHN KEMP-WELCH
Cazenove & Co
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London EC2R 7AN

Pride and the community

SIR - May we extend a warm welcome and wish you and your staff every success for the future.

The outcry I have heard from many of my colleagues (former members of the Stock Exchange in the main) about losing their membership of the 'club' has been enormous. There was great pride attached to being a member of the Stock Exchange and, in many eyes, this new institute will have a hard job to attain the same status.

I personally feel that by opening it up to a much wider cross section of the investment community it will, in fact, be a stronger, better, deeper organisation to belong to in the City of London.

Since we in the Stock Exchange lost our 'floor', our homebase if you like, life has become rather lonely. We've all become voices on the end of a telephone line rather than real people. I can't help feeling that this is one of the less good spin-offs of deregulation. So, having got used to being evicted from the floor we then find, horror of horrors, that we've been evicted from the club as well - a devastating blow to many of us.

Regrettably, with the closing of the market place the Square Mile has become the square 10 miles. Let us hope that this new magazine will help to bring us all closer together again and give us a deeper understanding of the many facets of the finance industry.

However, what we at Winterflood Securities believe is that with the polarisation of the market - top 500 companies and the 'rest' - the enthusiasm for and coverage of the smaller companies has become a low priority and we would ask that a fair coverage is devoted to the 'rest' i.e. perhaps some of tomorrow's top 500! The Stock Exchange is a market for raising capital and for dealing in the small as well as the large companies.

The Government has set in motion many instruments for deepening the wider share movement with funding for ProShare (son of wider share ownership) and PEP's with wonderful tax-free benefits, but we have to get wider acceptance that stocks and shares are for everybody not just pension funds, investment trusts and high net worth individuals.

I hope through your pages the community will once again get to know and understand each other better. The best of luck.

BRIAN WINTERFLOOD
Winterflood Securities Ltd
London EC3R 7QH

Educating the public

SIR – My best wishes to Securities & Investment Review on its first issue and to the Securities Institute on its establishment.

Institutional fund managers in general, being a cautious breed, have chosen to watch how the Institute develops before applying for membership, but I am sure that even the doubters hope that it will succeed in its ambitions and will eventually prove attractive to a wide range of disciplines in the financial services industry.

One of the Institute's most important objectives is to provide education and training for its members. Perhaps I might use this opportunity to suggest that there are two important areas where the Institute should educate not so much its members as, through them, the public whom they serve.

The first is the extent to which any regulatory system can prevent wrongdoing. There appears to be a belief in some quarters that financial regulation in the UK can be developed to the point of achieving something which no other police force has ever been able to achieve, which is to prevent all crime from taking place. I hope that the politicians, the press and the public can be brought to understand that regulators will never be able to do more than restrict the activities of the criminally inclined by good rules, effective monitoring and the general raising of standards. Pressures to change the system whenever a fraud is discovered will lead only to greater expense and uncertainty, and are particularly ill-advised when the system is only just beginning to settle down.

The second area relates to the extent to which members of the public should be compensated for any loss which they suffer in dealings with financial institutions. Here expectations seem to be losing touch with reality. Of course small and inexperienced investors must be protected, up to a point at least, but even they should be obliged to exercise due care.

There must continue to be strict limits to the amount of compensation which any individual can receive and there should also be a clear definition of the circumstances in which compensation is payable. A depositor with a recognised bank may reasonably expect the full security of a compensation scheme, but not the investor who is tempted by the high returns offered by a firm without record or reputation.

If these lessons are not learned, the road to wider share ownership will be a great deal more difficult and expensive to travel than it needs to be.

C.K.R. NUNNELEY
Chairman
Robert Fleming Asset Management Ltd
25 Copthall Avenue, London EC2R 7DR

SECURITIES NOTEBOOK

PULLING IN THE BIG INVESTORS

Sir Andrew Hugh Smith, chairman of the Stock Exchange, would like to see the large investment institutions brought more closely within the scope of the Exchange.

In an in-depth interview with this magazine (carried in full starting on page 18), Sir Andrew says that because the institutions are such major users of the markets, and because they have benefited from the investments in systems made by the intermediaries – 'it would also be right and appropriate for them to make some contribution'.

This is one of the main points made by the chairman in this wide-ranging interview, given last month at a time of increasing change in the structure and dimension of the British securities industry.

He also said:

– there is no realistic alternative to abolishing Stock Exchange membership for individuals and that the exchange is still looking at possibilities for an early pay-out to former SE members, 'not £10,000, but the current value of that sum if they get paid immediately'.

– the regulatory front is 'still too complicated...and that there are excess costs as a result.' He favours establishing two principal regulators only, one for the retail market and one for professional business.

– securities houses are not making a high enough return on capital. But Taurus will eventually provide member firms with financial benefits.

– securities-based finance is likely to be increasingly popular with companies in the near and medium term.

With the City undergoing further significant change in the wake of Big Bang and the regulatory changes – and coping with somewhat less active underlying securities markets than in the late 1980s – Sir Andrew presides over an organisation which is evolving rapidly and which is itself subject to occasional controversy, such as with the membership issue itself. He believes most of the noises of protest, however, came from a minority of former SE members.

His confidence in the strength of the British securities market is great, showing itself able to weather storms such as in October 1987 and again in 1989. At the same time, he echoes the words of his predecessor Sir Nicholas Goodison, that British companies are able to raise money on the finest terms, while the major investors receive a service that is almost too good.

The issues he discusses will be relevant to all practitioners in the securities industry for a long while to come. ■

...and the beat goes on

Meanwhile, the pace of change at the London Stock Exchange has not slackened recently. If anything, it has increased as the Exchange continues to focus on its core businesses of running and regulating the markets.

This continuing focus, and the ongoing commitments to meet customers' needs, has resulted in the introduction of a number of new service developments and initiatives over the past few months:

● At the beginning of April the Exchange announced that it had entered into a partnership arrangement with Andersen Consulting. Andersen has now taken on responsibility for the operation of live computer services, and is also working on the rationalisation and streamlining of the technical infrastructure which supports the Exchange information, trading and settlement services. The exchange retains full control of its business direction, which is set in consultation with market users.

The consolidation of the technical platform has enabled the Exchange to set as an achievable objective a 40% reduction in the costs associated with running the future computer operations – with equivalent cost saving potential for its customers.

● The company Bulletin Board Service has been two months into live service, following months of consultation with market users.

This new facility was designed to provide far greater market visibility for non-SEAQ securities and create a more efficient, low cost, flexible environment in which to trade. The success of this service was demonstrated in the very first trade on April 27, when more shares in Sennah Rubber changed hands via the Bulletin Board than the total number of shares traded in the previous 12 months.

There are some 135 securities traded via the company Bulletin Board, each with a dedicated information page on Topic (the Exchange's information system). The information displayed include basic company details such as the number of shares in issue and the latest results, together with details of previous trades and the name of the corporate broker or nominated dealer. All member firms can display firm or indicative orders by telephoning the Company Bulletin Board Controller, on 071-707 4444 (STX:34444).

● New and more onerous requirements for the disclosure of directors' share dealings came into effect on July 1, through amendments to the Yellow Book and Model Code. The new rules extend the scope of disclosure to interests and dealings of any person connected with a director under section 346 of the Companies Act.

This covers, for example, companies with which a director is associated or a trust in which a director or his family is interested. The disclosure rules will also apply to the grant or acceptance of options.

● The Exchange has also emphasised the need for companies to ensure that their directors accept responsibility, collectively and individually, for compliance with listing rules. The requirements explicitly state that the

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its Annual Report and Accounts on June 15, announcing that last year's pre-tax loss of £7.6m was turned into a surplus before taxation of £1.15m for the year ended March 31, 1992. This very satisfactory result is due in part to the higher-than-expected market volumes, but also derives from careful management of income and a further reduction in the cost base.

In the Report, the Exchange drew articular attention to the abnormally igh tax provision of some £10m, hich stems from a change in the way which the Inland Revenue wishes to eat new service development costs. nstead of allowing new software developments as a revenue deduction as preiously agreed, the Revenue now contend that all such expenditure (as from ne 1989/'90 tax year) should be eligile only for capital allowances at the revailing rate of 25%.

The Exchange is still discussing this hange of policy with the Revenue, basg its arguments not just on precedent ut also on the commercial damage hich the ruling would have on all usiness which, like the Exchange, dopt a conservative policy toward serice development. ■

Tams for Taurus

John Tams Group plc is a family-controlled earthenware and fine bone china manufacturer based in Stoke-on-Trent and founded in the 1870s. It has a market capitalisation of around £20 million and on July 27 is holding its annual meeting, at which Gerald Tams, great-grandson of the founder of the company will, amongst other things, be proposing a special resolution to approve the adoption of Taurus principles. This is the process the Stock Exchange calls dematerialisation – the board has to agree to dematerialise and this has to be followed by a special resolution.

By the end of June, around a dozen companies had passed this resolution and a further 17 or so were due to pass it in the next couple of months.

Tams finance director, Colin Knibbs, has been instrumental in his company adopting the Taurus proposal. 'I believe it to be essential for the City of London to be more economic and efficient in comparison to overseas markets, and that a rolling settlement of only a few days to be very beneficial to shareholders.'

Although Tams is a small company, Colin Knibbs is keen not to be seen lagging behind the larger companies (BT's 2.9 million shareholders are due to vote on their special resolution only three days after Tams.)

An explanatory letter and a Stock Exchange leaflet will be sent to all shareholders and a Stock Exchange representative will be present at the

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EXTRACTS FROM THE CHAIRMAN'S SPEECH AT THE 1992 ANNUAL GENERAL MEETING ON 28TH MAY.

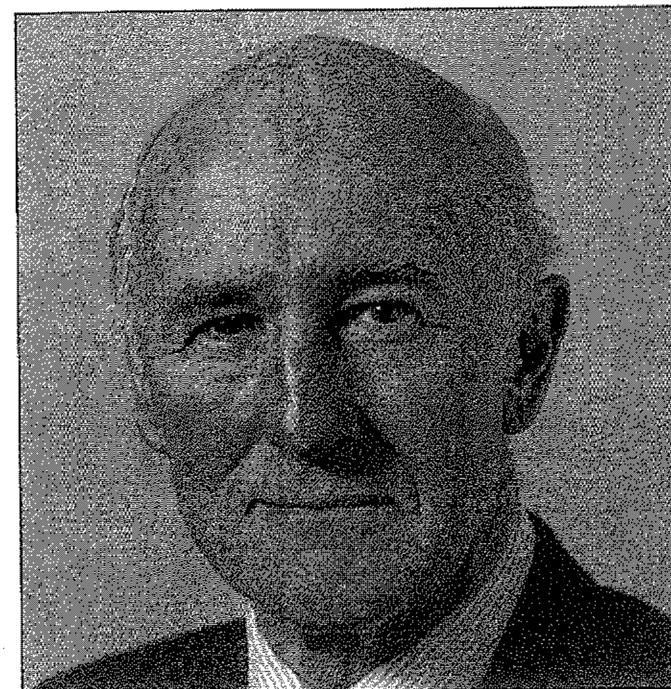
We have already reported on the first quarter's results which were a promising start to the year, with pre-tax profit up 14 per cent. I have every confidence that this performance will actually accelerate as the year progresses.

As the world's most international cigarette company, we will continue to take advantage of opportunities in both new and existing markets for our portfolio of US and UK international brands. The financial services picture is already much brighter, particularly with the continuing success at Farmers and a distinct improvement in the underlying trend at Eagle Star.

The year as a whole should be one of real progress for B.A.T Industries and this will enable the Group to maintain its record of dividend increases significantly in advance of inflation. Our aim will be to at least match last year's increase, as well as rebuilding dividend cover. SIR PATRICK SHEEHY, CHAIRMAN

FOR A COPY OF THE FULL SPEECH CONTACT B.A.T INDUSTRIES PLC, WINDSOR HOUSE, 50 VICTORIA STREET, LONDON SW1H 0NL.

MY FIRST BATTLE WITH MAXWELL



By Victor H. Watson

ALMOST 10 YEARS AGO, ROBERT MAXWELL LAUNCHED A FIERCE TAKEOVER BID FOR THE BOARD GAMES COMPANY WADDINGTONS – AND WAS EVENTUALLY REBUFFED. HERE THE WADDINGTONS CHAIRMAN TELLS THE STORY OF HIS FIRST SUCCESSFUL DEFENCE AGAINST MAXWELL

Although Robert Maxwell was involved in many takeover bids, he had not initiated many of them. He was an opportunist and a dealer. Those were his strengths. During his bid for John Waddington plc in 1983 I described him as a shark which smells blood and cruises over to the scene to join in the kill.

We had been 'put into play' by a local bingo ticket printer, Norton Opax who, later on, got their come-uppance when Bowaters captured them. Like many companies in the 1970s, Waddingtons had performed badly. Our new managing director, David Perry, provided the energy and determination needed to rationalise the business, reducing the staff and the costs.

By the early part of 1983, the business climate had improved and our profitability was rising rapidly. We knew that we were vulnerable to a bid and made all the preparations we could. But we did not expect the bid from Norton which came on May 17, 1983, the anniversary of the 1967 bid for us by Mardons. The bid was 133p cash or 146p on a valuation of the Norton shares. Even though our current figures were good, we were advised to hold our fire. We were told, 'They won't get many acceptances. They'll then increase the offer. Save something to say. Hold on to your aces.' We were anxious that the game might be over with the aces left in our hand. We need not have worried about that. For Robert Maxwell came 'riding to the rescue' on his off-white charger.

The day was June 17. I had woken up early and by 7.15am I had patrolled the works and was in my office. The private line rang at 7.30am. It was the Bouncing Czech himself with the familiar plummy voice announcing that he had decided to initiate a bid by his British Printing Corporation. 'We can't let these upstarts muscle into the packaging industry,' he said, 'Who are they anyway, Norton Tampax?' He went on in a re-assuring fashion to say that I would be deputy chairman of BPC, that there would be a seat on the board for David Perry and that together we would create a consid-

erable packaging empire. I told him that his intervention was unwelcome and that we would resist all bids.

The BPC bid was 185p cash or 205p on a valuation of their shares.

The main events were as follows:-

June 17	Announcement of BPC bid	
July 9	BPC issue their offer document; 185p cash, 205p in shares	
August 1	Increased offer from BPC; 250p cash, 278p in shares	
August 5	BPC letter to shareholders declaring their bid final	
August 8	BPC letter declaring August 23 as closing date for cash offer	
September 7	Bid failed. For:	
	BPC and Pergamon	14.93%
	Norton and Watmoughs	9.17%
	Others	18.10%
		42.20%

Battles are often won by the side that makes the fewer mistakes. Our battle was true to form with Maxwell's blunders being of great importance. I would say that our victory was due to:-

1. Our strong, united team
2. Maxwell's mistakes
3. Maxwell's reputation
4. Supportive shareholders

The saying, 'If the trumpet shall sound an uncertain note, who will prepare for battle?' is of significance in bid battles. Our directors were united in their opposition. We had excellent advisers in Cazenove, Kleinwort Benson, Price Waterhouse and our lawyers, Hepworth & Chadwick. They did not all start with the same determination as the directors. In the first few days Simon Barrow of Kleinworts said that we could defend only up to a price of 180p. We successfully defended at a price of 278p but by then we had the benefit of Kleinwort's John McArthur, a bonnie fighter if ever there was one.

We were fortunate with our association with the Midland Bank. We had always banked with NatWest and in the old days it was a National Provincial Bank executive who was the chairman of Waddingtons. But shortly before the bid we had introduced Midland Bank and that turned out to be very useful as NatWest were on Robert Maxwell's side.

Our trumpet sounded a certain note but even among our employees there was, to start with, a lack of unity. There were many who said, 'Maxwell's not so bad and see what a good job he has done with BPC.' Such doubts were dispelled when, at a meeting of management and shop stewards, a local trade union secretary, Eric Gill, described how Robert Maxwell had dealt with the Leeds company T & T Gill. Maxwell arrived in his Rolls Royce, announced that he was the owner and that there had been bad management and insufficient investment but that he would put that right and the future was assured.

The workforce were delighted and applauded the saviour. Then a few days later someone came from head office to declare redundancies and pay cuts. Eric Gill telephoned Maxwell who said, 'Things aren't as I thought,' and put the phone down. Stories like that united our employees against a common enemy.

What were the mistakes? Our main mistake was made at the outset. We did not issue clear and immediate advice to shareholders not to sell their shares. As a consequence, in the first few weeks about 25% of our shares were sold and obviously ended up with the bidder or enemies or those in for a quick gain.

Robert Maxwell's first mistake was to be too slow. It was 22 days before his offer document was despatched. Our profitability was improving and the extra time enabled us to report actual results rather than promises. The other side issued inaccurate statements which we forcefully corrected. They telephoned our shareholders with untrue claims; Maxwell got a slap on the wrist from the Panel for that!

In the closing stages he declared the bid final and could not increase. He tried to do so by increasing the BPC dividend but the Takeover Panel refused to allow it. Throughout he seemed to be managing by the seat of his pants with hardly any planning. Probably most important of all he underestimated us; he thought that we would roll over and cave in.

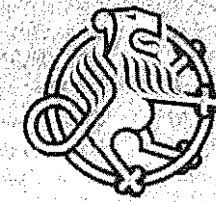
The Maxwell reputation was an issue. We made a positive decision not to refer to Maxwell's murky past. I read every word of the report of the Leasco/Pergamon affair and improved my insight into his character. We wanted to attack on this front but decided that it would be counter-productive. Firstly our supportive shareholders would not have approved such behaviour. Secondly there was a great deal of support for Maxwell.

Most of the City press and especially the Sunday papers were on his side and any hostile activity on our part would have evoked a strong riposte. It was unfortunate for us that the Financial Times were on strike for many weeks until August 9, 1983. In private conversations about Maxwell with shareholders and others we were frank. There were many who disapproved of him and we enjoyed enhanced support because of that. It is my view that a bid of 275p in August 1983 from almost anyone else would have succeeded.

We did, however, fire one telling salvo. In July Maxwell had told everyone of the sale of some land at Watford for £20 million. The Evening Standard said, 'The BPC share price was helped by confirmation of just what a brilliant deal Mr Maxwell had done over the Odhams site at Watford.' Soon afterwards a BPC offer document mentioned the site but not the quoted amount of £20 million. We deduced that the figure had been omitted because it would have had to be audited.

We investigated the supposed deal and put out a pungent press release. The Financial Times, in a long story, quoted a Watford Council official who said, in effect, that no deal existed and that the £20 million was a figment of Maxwell's imagination.

Our smaller shareholders were overwhelmingly on our side and our main institutional shareholders supported us to the extent of participating in an innovative ploy. In August, Cazenove advised us of a threat. They reminded us that the



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cash offer closed before the share offer and that some shareholders, fearing that we might lose, would opt for the cash rather than be left holding shares in BPC. We thought of the idea of asking our major shareholders for permission to tell the rest of the shareholders that they did not intend to accept and thus stiffen everyone's resolve.

Within three days we were able to announce that 46.2% of the shareholders did not intend to accept. It was extremely difficult for a variety of reasons to persuade some of our major shareholders to participate but we managed it and it had a dramatic effect. Mr Maxwell said, 'Victor Watson has thrown a googly at me.' I commented scornfully on his misuse of the word 'thrown'.

Then, towards the end of the tussle, we had our famous meeting with the Norwich Union. Throughout the bid they had refused to see representatives of either side. I found this difficult to understand. I treat shareholders as the owners of the business and it seems only reasonable to me to communicate with the owners and, if possible, meet them. When Norwich Union decided to accept Maxwell's offer in July, we concluded that we must insist on a meeting. We had much to say about the progress the company was making. There were matters which could not be published.

For example, we had gained a very large contract for the supply of plastic containers to Van den Berghs. The customer said that we must keep it secret because it meant that Metal Box had to close a factory and the workforce had not yet been told. But they gave us permission to tell a few shareholders in confidence.

We were advised that this was against the rules. I said that we must do what was best for the shareholders; telling a few shareholders would mean that they would reject the bid, an example which would be followed by the rest, thus benefiting the shareholders as a whole.

David Perry and I pushed our way into Norwich Union and they had the courage to change their minds and withdraw their acceptance of Maxwell's bid. This and other supportive action by our shareholders was a vital factor.

When it became clear that the bid had failed on September 7, Robert Maxwell telephoned me to admit defeat. When we met later on he showed no animosity.

Not long afterwards, Maxwell made a second move for Waddingtons and was defeated once again – but that is another story. Waddingtons remains an independent public company. (See Winning at Monopoly below). ■

WINNING AT MONOPOLY

Waddington started at the turn of the century as printers of theatre programmes and posters with some general printing. By 1918 it was no longer a private company and between then and 1939 achieved very rapid growth. Waddingtons became a household name for playing cards, games (notably Monopoly), and jigsaw puzzles. The company also engaged in the manufacture of folding cartons, labels and waxed paper milk cartons.

Thus the foundation for future growth was laid. Since the Second World War the packaging activities of the company have become the most important element with more than 36% of total sales now being in plastic packaging both in the USA and in the UK. Paper and board packaging make up another 24% of sales. Business forms with operations in the Benelux and the UK comprise 19% of total sales.

The games company is the next in order of importance with 11% of total sales but a large contributor to profits. The printing activities comprise 10% of total sales and are almost wholly of a very specialised nature with financial services, confidential and security products as the prime markets.

The company has 25 plants with three in the USA, four in Continental Europe, one in the Far East and 17 in the UK.

There are 18 subsidiary companies, each with its own management team responsible for profitable growth within guidelines agreed with the main board of directors.

In June, Waddingtons announced that operating profit for the year to April of £18.3m was maintained at a similar level to the previous year on sales ahead by 2% at £231.4m.

After exceptional reorganisation and redundancy costs of £2.2m and an increased interest cost, profit before tax was £12.5m compared with £16.0m in the previous year. Earnings per share were 11.59p compared with 14.75p.

The year saw tough trading conditions in most of the group's main areas of business and markets. The board said that it has responded by continuing its strategy of focussing on core areas, reducing costs and making selective disposals.

After several years of heavy capital expenditure, the Board expects future spending to be at significantly lower levels. Year-end gearing has been reduced to 42% from 54% last year

David Perry, deputy chairman of Waddingtons commented that, 'In highly competitive trading conditions that have put pressure on sales and margins, I believe we have performed well in maintaining operating profits.

'Over the last five years, we have invested some £96m in new facilities, plant and equipment. Our major capital investment programme is now substantially complete. As a result of this market led programme, all of our core businesses have modern plant and equipment and, in many cases, have a technical edge over their main competitors.'

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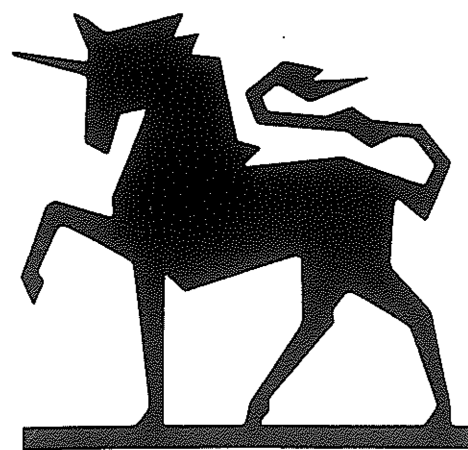

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AN INTERVIEW WITH SIR ANDREW HUGH SMITH

RINGING THE CHANGES

THE PAST 10 YEARS HAVE SEEN HUGE UPHEAVALS IN THE SECURITIES INDUSTRY – AND THE 1990s LOOK LIKE BEING JUST AS ACTIVE. IN A DETAILED INTERVIEW, SIR ANDREW HUGH SMITH, CHAIRMAN OF THE STOCK EXCHANGE, TALKS TO *SECURITIES & INVESTMENT REVIEW* ABOUT THE NEW CHALLENGES FACING THE MARKETS AND THE INDUSTRY. HE URGES THE INVESTMENT INSTITUTIONS TO BECOME MORE INVOLVED; HE DEPLORES OVER-COMPLEX REGULATION; AND EXPLAINS WHY FURTHER EVOLUTION IS NECESSARY.

Q. May we begin with the membership issue? The decision to abolish individual membership of the Stock Exchange was taken and announced, according to some people, in great haste. What was the reason for the timing and speed of it all?

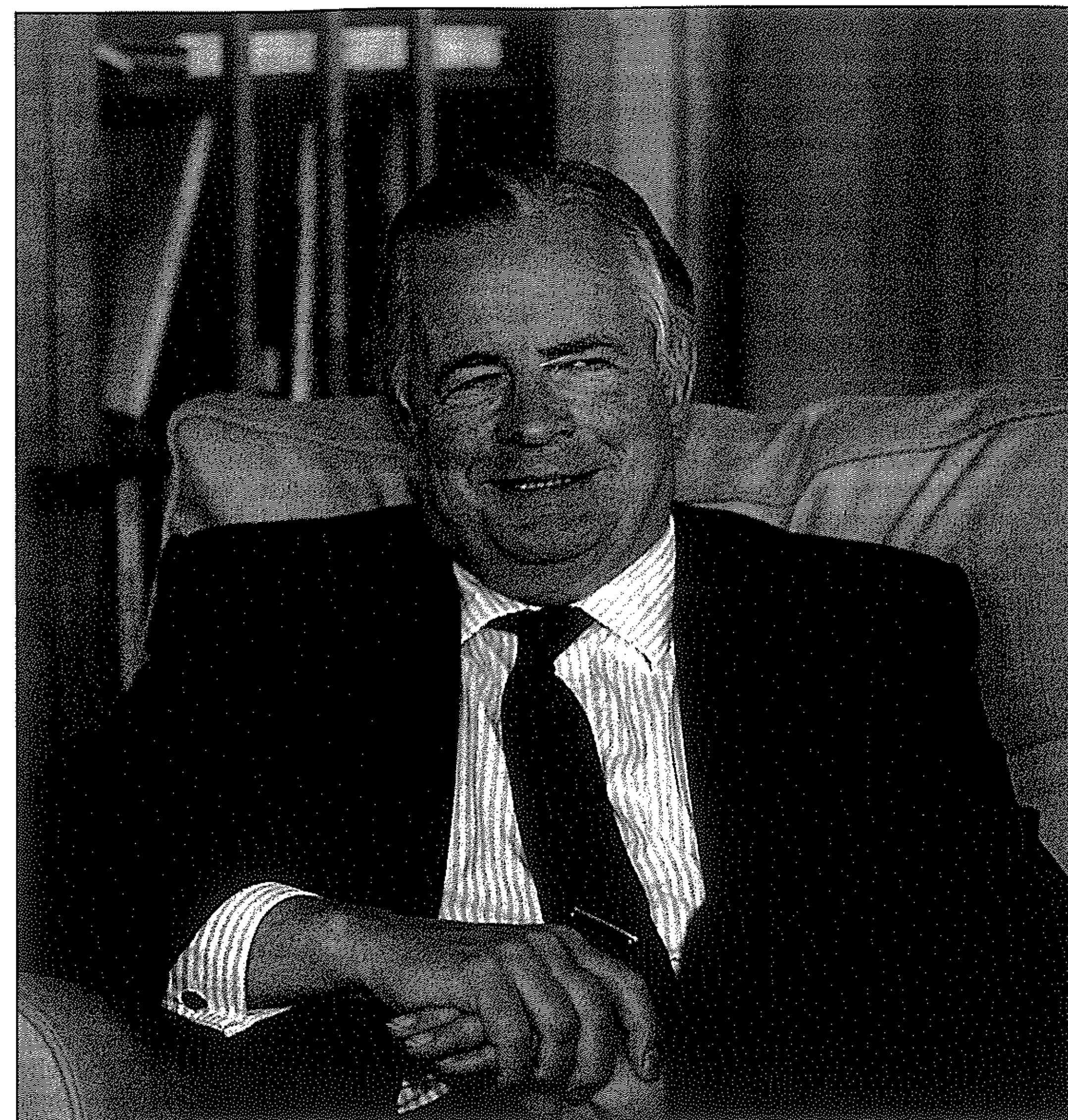
A. It has been said that the formation of the Institute and the abolition of membership was suddenly announced but that is not true. It had been discussed for the previous 18 months or more. In particular, where I think there was most interest in individual membership – in the country – we had discussed it with the regional unit committees originally and later on with unit chairmen. There was considerable concern that individual membership was losing real meaning and something needed to be put in its place. That's precisely what we did. One has to bear in mind that a lot of the noise and complaints have come from a relatively small proportion of the membership. No doubt there is a higher proportion which was sad and perhaps unhappy about it, but I think the vast majority recognised that there had been a gradual diminution of individual membership over a long period of time and it was becoming increasingly meaningless, other than to be able to say that you were a member of the Stock Exchange. That was really all that was left at the end.

It seemed to be only honest to recognise that fact, and also to recognise the expressed view of a lot of people that there needed to be a professional qualification which could be substituted for the old membership of the Stock Exchange – something which was not limited to the Stock Exchange but to other equally professional occupations within the securities industry. So that's what we have done.

It has also been overlaid by the revival of the argument over the old financial settlement in 1986. What we've said is that we will try and find a way of producing a slightly better result for them and of allowing them to do a deal to get paid out – not £10,000 but the current value of that sum if they get paid immediately. We are continuing to look at possibilities.

Q. One possibility is for a market in these membership shares – is that likely?

A. I think that would be a logical way of moving. The difficulty currently is that the shares are redeemable at age 60, or later retirement. You do suffer a tax penalty, you understand, by doing it if you are still working, in which case it is seen as being part of your earnings from the Stock Exchange. I can't help feeling that over time the Inland Revenue might take a more lenient view of that but I don't know. You do get earlier repayment if you die or if you go bankrupt. We would have to put the entitlement to redemption on to a common basis before we could produce a sensible result. We currently have no firm proposals.



HUGH SMITH: hoping to treat institutional investors as part of the securities market.

Q. How successful do you think the Institute will be in getting members from other disciplines in the securities industry?

A. There is a very strong case for people who operate in fund management for instance, possibly as investment analysts, to look very hard at it. Currently the Securities Institute staff have been working very hard on their first priority which is to take advantage of the ending of individual membership and recruit those people who are no longer individual members.

And that's going to be a full time job. And I believe they have well over 3,000 members now. So that's quite an achievement. As that phase completes then I think they will increasingly want to concentrate on encouraging people in other parts of the securities industry.

I understand that the chairman and the committee are working hard to broaden the membership of the committee so that there will be people from other parts of the industry involved in the running of the Institute.

Q. May we talk about Taurus? One cynical interpretation of Taurus is that it is always 12 months away. How long will things be like this?

A. It is very encouraging that people are saying it is only 12 months. I was congratulated by an ex minister not very long ago who said at long last Taurus is less than two years away. I think there is a fair chance that very shortly we will be able to say that it is less than a year away. Perhaps we could say it now, I'm not sure, but it certainly is making real progress. We are well into the building of the whole thing. We are not all that far from the beginning of the testing operation. But that is something we have only been able to say relatively recently as it took to the end of last year to resolve the whole of the legal environment to enable it to work.

Q. Is there likely to be a reduction in charges to member firms as a result of Taurus?

A. Well, we've issued an indicative tariff and that will be due to be reviewed probably fairly soon, but we haven't done so yet and it is probably unwise to anticipate that.

There will be very significant savings to the industry as a whole, but exactly how they are

going to fall I think it is too early to say. There are extra operating costs involved not in building the system but in carrying out the level of regulations which the government has required us to take on. So there will probably be some change.

Q. Private clients may be concerned about the abolition of share certificates, and a considerable educational programme may be necessary. Is this not going to be rather expensive, who is going to pay for it and will there be government money involved?

A. Well you know government policy as well as I do. I think it is highly unlikely there will be government money involved.

It has been planned for a long time. I don't think it will be hugely expensive, we certainly are planning to educate and help companies – because that is where the initial responsibility very largely lies – to educate their shareholders, both in voting at annual meetings to accept the Taurus registration system and later as it actually comes through and companies begin to go on to Taurus. It will be very much the same message to shareholders as a whole so the amount of specific education for each group of shareholders, I think, won't really be very great.

Q. How do you view the latest developments in the Capital Adequacy Directive discussions?

A. Well it sounds as though a rather useful compromise has come through. We do need to see in particular how it's legislated. That is one of the problems that is part of our sort of life. It's not just the text of the directive which matters it's also the way it's put into law – and also, frankly, enforced. There are a number of countries which are (a) very slow indeed to legislate directives and (b) then having legislated pay not the slightest piece of attention to the enforcement of what they've put into their own law.

Over here we tend to be the goody-goodies and we legislate closely to the text of the directive, and then enforce it. Perhaps we should have an understanding with our community partners that we enforce where they enforce and we don't where they don't. It would be a much healthier situation for industry and commerce in general.

Q. Do you share the concern that some people feel about the lack of interest shown by certain major investors, such as the Prudential, and also by certain market-makers in the shares of smaller companies?

A. The Prudential said they were going to concentrate their investment in small companies to a much greater extent. They are not saying they are taking money out of small companies, and I think that is much healthier. It's very easy to finish up with a huge portfolio of investments which are almost impossible to monitor. It's small companies in principle which you want to monitor perhaps rather more closely than the bigger companies. But the trouble with small companies always is that first of all the total market capitalisation is relatively small, and secondly quite a high proportion is usually tightly held by director's families and people like that – so that liquidity of small companies shares is not on the same scale as you would expect of large company stocks. Now that has always been the case, and it is just as true in other market systems as well as our own market making system. Market makers as a whole have found it increasingly difficult to make satisfactory prices and provide a satisfactory market service in the smaller companies. There are some specialist market makers in small companies and no doubt they will continue but I think on the whole it is felt by many people in the market that giving greater visibility to the wish to deal by investors is a good way of improving on the level of liquidity that we provide at the moment.

And it also means that if you're not relying on a market maker risking his capital you're likely to get a much closer price, and one of the problems we have had in this last two or three year period where small companies have been under a lot of pressure has been that the price spread has been getting wider and wider. And that in itself is a disincentive to people to deal because the transaction cost as they see it in the quotation is appallingly high. We've had many companies on spreads between 10% and 15%. That I think is always going to provide a considerable problem in getting people to actually take an interest.

So we've been developing first of all a bulletin board, which we have now introduced, and gradually more stocks will go into that. Also we're actively examining this matching principal idea as well as other ideas to see whether we could provide further enhancements over and above the bulletin board service. So I think we are doing quite a lot to improve matters there and hopefully to reduce the costs of the intermediaries involved in that type of business.

Q. It appears from the latest Stock Exchange Quarterly that in 1988 there were 350 member firms and at the end of last year, 410. Is there any particular reason for the increase?

A. I'm not sure there's any sort of overall trend. There's quite a lot of small corporate finance specialists who are member firms and certainly there has been a level of growth amongst them. In the traditional firms, there has been a small number of private client operations which have grown up and perhaps split out of larger groups. But there's been no dramatic trend in this particular direction. The fact that there are a larger number of firms contradicts another well established trend which is that the main share of the business is being concentrated in fewer hands.

Q. Looking at the Stock Exchange itself, is it true that staff numbers are expected to decline from more than 3,000 a few years ago to nearer 1,000 in a few years?

A. We are currently around 1,400. That is partly because technical operations have been transferred to Andersen Consulting which incidentally a lot of them are increasingly coming to realise actually gives them considerable expansion of their career prospects, because they are now part of a large, highly successful organisation run by

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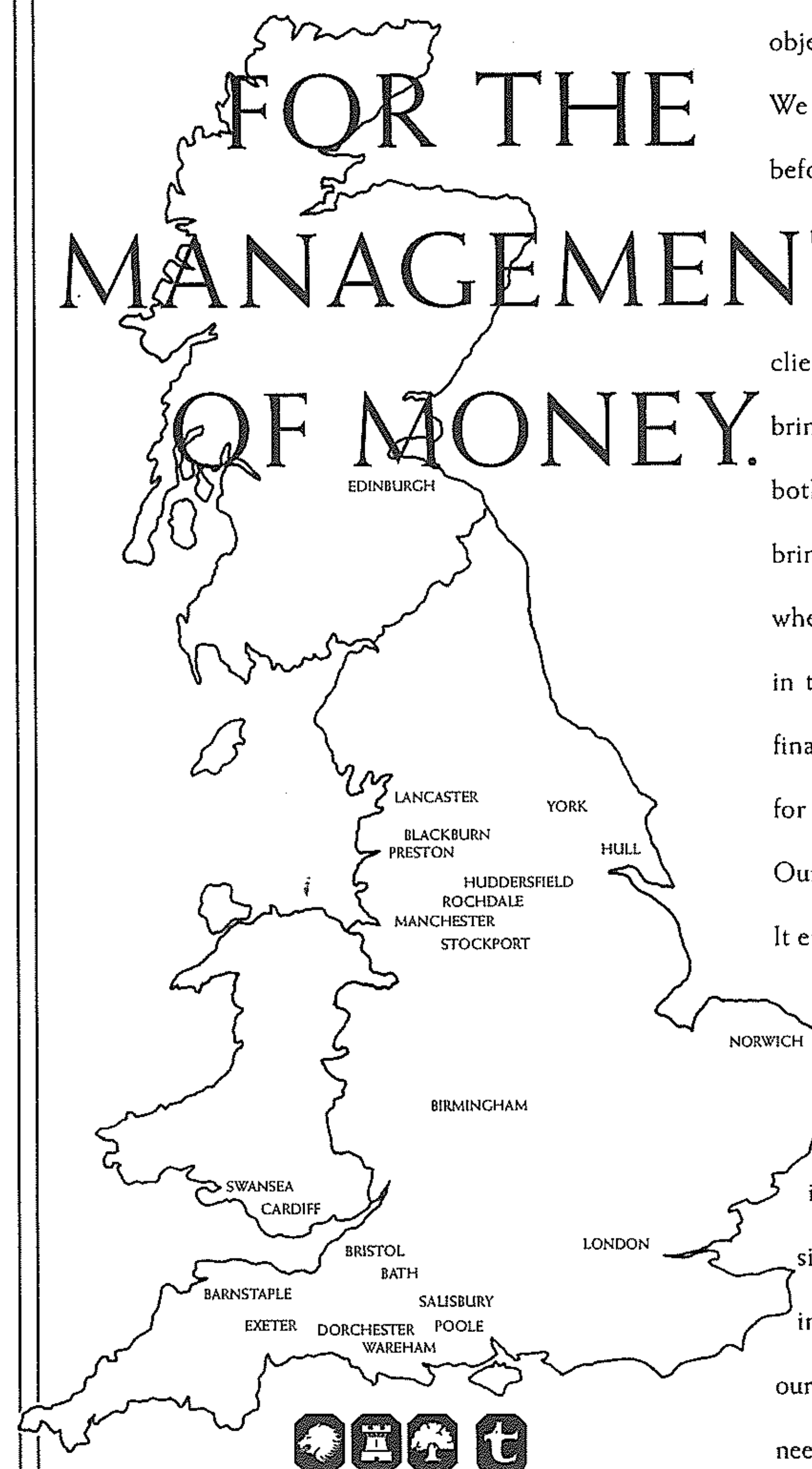

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information technology professionals. And that was one of the things which we bore in mind when we decided to do this. But overall we are looking for increased efficiency all the time, we have to. Transaction costs are an important consideration for people who use the market.

And as Taurus comes in inevitably there will be a reduction in the need for clerical labour. So I'm afraid there will be a further reduction in numbers in due course.

As a proportion I think the professionals and senior people are probably growing and a lot of the relatively low skills in the settlement area will fall out and a lot of the lower end of the skilled ranks in IT. But again there will be fewer of them because of the arrangements we have made, and increasingly the people we employ will be engaged in regulation – as in the quotations area for instance, as in supervising the market, management overall of the market place, handling various highly professional jobs in terms of seeing the way ahead and planning how we can improve services to market users.

So it is becoming a highly professional organisation, much smaller in numbers, but also in market terms an extremely successful organisation particularly in the international market area and I hope increasingly we will find that we are a successful organisation too in looking after the UK market.

Q. What's going to happen to this building?

A. Nothing much for the time being. There's too much empty space in London to seriously contemplate emptying it and redeveloping the site. We have now virtually completed refurbishing the market floor and that has now become the very large open-plan office which houses the quotations operations.

Q. Should you at some stage redevelop this site, is there a chance that member firms might be paid out?

A. I suppose if the Stock Exchange came to a grisly end our last act might be to redevelop the building and distribute the specie, so to speak, but I think it is highly unlikely.

It's not what I'm in business here for.

Q. But you could do it without abolishing the Stock Exchange as a body.

A. Well, I think the rate of change in the securities industry is such that you can't rule anything out but I certainly see the Stock Exchange as an ongoing organisation for as far ahead as the eye can see. And it always will require substantial assets to back these operations. There is quite a lot to be said for holding the backing assets in slightly illiquid form. Looking back the property investment has been a highly successful one but the notion that we have capital resources which we don't need is certainly untrue. I can't see it coming true for a very long time ahead.

Q. There seem to be a number of new organisations in the City these days, many known by their initials – what do you think about this proliferation of acronyms?

A. Many of these are really trade associations, or commercial associations, which I think bears witness to the change of role of the Stock Exchange. We cannot both provide a regulated market place and the services that go with it today and at the same time be a trade association for an increasingly disparate variety of members. And if you look at our member firms they do operate in a number of very different areas with somewhat different interests. You do tend to find private client firms in APCIMS, the securities houses and market making and institutional trading in BMBA. Then there are some other people who don't have a trade association as such, because they are big businesses carrying out specialist low cost execution-only business – the clearing bank branches, for instance, Sharelink, perhaps the building societies. And that's a different area again. But that's why you get all those acronyms – they are all doing the same sort of thing, but for different types of business.

Q. What about the state of regulation?

A. The regulatory front is still too complicated and I think that there are excess costs as a result of the level of complication and my own view so far as the securities industry is concerned you only really need two regulators – one for retail business and one for professional business. You should have both of those answering to the SIB and through them to government. If you did that then a lot of regulatory costs could indeed be reduced, partly because there is a level of duplication at the moment which is undesirable in the long run and partly because you would get much greater specialisation of operation between the two remaining regulators.

Q. Is there a sign of a move towards that?

A. Well I think that the Clucas Report took you half way. A lot of people would disagree with me but my own view was that it would have been a fairly straightforward step forward from there, to have actually had one retail regulator. Not everybody would have liked the idea. But they might have liked the financial result. It is very dangerous to separate regulation and the market. The principal economic interest has to be to ensure that your capital market is run with the maximum possible efficiency and to a large extent, obviously not completely, it seems to me that regulations should be subordinate to the economic efficiency of the market. At present, there is no particular incentive for the regulators to work in that way – this is not a criticism, but a fact.

Q. What about relations between the City and government at present. Are they good?

A. Yes. They certainly have been under the previous parliament. There have been some changes in responsibility but I see no reason to think that there are going to be any difficulties there. I sometimes think that government as a whole, and that applies to officials as much as politicians, do not fully realise the contribution the City of London makes to the national wellbeing. It is, I think, too often regarded as being more of a milch cow than a provider of golden eggs.

Q. Is this because the City hasn't got its message across properly?

A. It probably is. It always has been one of the problems for the City that there is no single body which can effectively speak for it. In some ways and in some subjects the Bank of England can do

A COUNTRYMAN IN THE CITY

Sir Andrew Hugh Smith, who is 60, was educated at Ampleforth and Trinity College, Cambridge. He lives in an old rectory in Buckinghamshire with his wife Venetia and their five golden retrievers and two labradors. They have two children, David and Peter, who were also educated at Ampleforth.

Having been called to the Bar in 1956 he practised until 1960 when he joined Courtaulds Ltd. In 1968 he joined Capel-Cure Carden (later Capel-Cure Myers) becoming a partner in 1970 and chairman in 1979. He was elected to the Council of The International Stock Exchange in 1981 and chaired the Technical Services and the Property and Finance Committees. He became chairman of the Council in 1988.

The Chairman relaxing in his Buckinghamshire kitchen.

His interests include gardening, they have a two-acre garden, fishing and stalking. He is a Trustee of the 40,000 acre Ardtornish Estate in Argyll where he has been stalking for 40 years. Lady Hugh Smith is a well-known figure in field trials and competes, with her gundogs, all over Britain.

Sir Andrew has served on a number of small company boards as chairman or non-executive director, most of which he relinquished on becoming chairman of The Stock Exchange. He remains chairman of the gunmakers Holland and Holland Plc, reflecting his interest in shooting. He is also deputy chairman of the Financial Reporting Council, a director of British Invisibles and vice chairman of the Guide Dogs for the Blind Association.

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it very effectively but it is not an organisation which is very good at speaking publicly. It is not in the nature of the beast; nor should it be. But there is no sort of governing body of the City as a whole which can do it.

In principle I suppose the Lord Mayor and the Corporation might, but the nature of the mayoralty with a one year stint and no sort of democratic basis for the appointment – he cannot speak with the same authority as perhaps the Mayor of New York or Paris can – makes it difficult. It would be very nice if he could. Perhaps it would be a good idea for the Corporation to consider whether 800 years of history shouldn't be modified slightly. But I don't see them doing it.

Q. Do you think that the image of the City held by politicians is of well-rewarded individuals with high salaries and large fees?

A. Politicians sometimes say these chaps are paid too much. But it is a really successful industry and of course people who are successful in industry tend to get well paid. Politicians ought to ensure that there are more successful industries and that people in those industries are well paid. But again, this is the eternal confusion between the milch cow and the golden egg.

Q. Have the changes in the Stock Exchange led to a loss of strength in any way?

A. I think that the great strength of the Stock Exchange in the past, partly built on single capacity, was the absolute integrity always expected of everybody who was a member of the Stock Exchange. That I don't think has or should change. The difficulty was you can't maintain that in the long run unless the organisation is actually dedicated to running what is essentially a professional institute.

Now because of the way the market has developed, because of the much broader range of people involved in it, and because of all the stresses and strains of having a foreign market place, we were not in a position to go on doing that and we had really reached the situation where, apart from a particularly grubby reading room somewhere in the bowels of this building, there was nothing we were offering members of the Stock Exchange except the ability to call themselves that, absolutely nothing else.

Now I think that is a sham and I don't think shams are things that should be perpetuated or, indeed, in the long run do any good to the people who may in the short run get some limited benefit out of them. It seemed to be much more sensible to actually try and make sure that tradition was perpetuated and looked after by a proper professional institute which could do the job properly. So that's the reason. I have no regrets at the decision.

Q. What are the patterns you see developing over the next few years in the way the securities markets operate. For example do you see much greater links with Europe, and more technological changes, like Taurus?

A. Taurus will basically bring the supporting settlement system up to date. That in itself will be great improvement. A lot of our attention over the next two or three years is going to be devoted to resolving the problem which is affecting most of the Stock Exchanges, certainly in the advanced countries around the world – that is how you reconcile the problem of providing adequate investor protection for the retail private client investor on the one hand and at the same time provide a really liquid market which can provide real immediacy of dealings to the institutional investor on the other. The two are very difficult to reconcile.

It has been very interesting to see over the past year or so that it is increasingly recognised even in Europe. You have the French concerned as to how they are going to deal with that and talking about development of a block trading system. You have similar developments in Germany. You have the same concerns in many of the other European exchanges.

You also have developments which revolve round the same sort of problem in North America and indeed in Asia. I think we are particularly well placed in this because it is the success of the market making system, particularly in concentrating institutional business in this time zone on London, that has been quite remarkable. We are doing about 95% or so of cross-border business with Europe and two thirds of global cross-border business in London.

That tells you that for that type of business the market making system is highly successful and the right one. It does have problems in that as the regulators looking after the interests of the private client and the retail investor concentrate more and more on what they call transparencies, that is very difficult to reconcile with a market which is providing liquidity and immediacy.

And the solution can only come by segmenting the markets so that there is a market which looks after those people who really do need protection and another market which concentrates on providing the economic benefits for industry as much as for those who participate directly in the market, and having a really liquid immediate market for professional dealings.

Now what is possible here – and we have been putting it forward to other exchanges in the market in Europe – is the notion that we should help develop a European market place with a quote-driven market making system.

We see the main dealing in the really actively traded UK stocks being carried in that market place as we see happens mostly with French and German stocks traded already internationally, but with a very strong linkage between that market and our national market where Aunt Agatha will be able to buy or sell her ICI and Shell shares but be able to do so with the benefit of the protection which she needs.

Now there is no reason at all why you shouldn't have a market place of that kind with the management and regulation provided by the representatives of businesses authorities in other parts of Europe, but with a linkage from that market to each of the national ones. Now that way you can actually square the circle and look after both types of investor but you probably can't do it any other way. At least we haven't found one. And nor has any other exchange. So that is where poten-

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tially a very big development is going to take place and it is one that will be very appropriate as we move further into the single market and as you begin to get greater demands on capital markets arising from European industry as a whole.

Q. What are the problem areas at present?

A. Paying for the new system is one thing. Another area of concern is that I don't think for the moment securities houses are making a high enough return on capital. I think there is perceptibly some sort of improvement in the trend, but this is still a highly volatile business with a low level of return.

There needs to be some improvement there. There is nothing we can do more than help. We can't make dramatic changes which will improve the picture. I think too, the relationship of the institutional investor with the market place is something we should spend more time talking about particularly as the big institutional investors are direct participants in the market – it will make sense increasingly to treat them as such rather than pretend that they aren't.

Q. Might you start regarding them almost as market makers?

A. I don't know that they will be market makers as such but certainly they deal, many of them directly with market makers and therefore I think some form of membership or something similar may well be appropriate. That's something we need to talk and think about – and there is the issue of costs associated with membership.

Q. Will you try to integrate others into the structure of the securities markets?

A. The way the market structure works it makes much more sense to try and integrate people who really are the users of it. You could argue, much less forcibly, that listed companies are also direct users of the market. In practice I don't believe that is the case except perhaps in relatively small numbers who use the equity market very actively indeed. So that's probably something which won't come around very quickly.

But institutional investors have taken the financial benefit to quite a large extent of some of the investment made by the directly-involved intermediaries. So it would also be right and appropriate for them to make some contribution.

Q. Overall do you feel the securities market in this country is in good shape?

A. In terms of providing a financial service to institutional investors, it provides an astonishingly good service. The other side of course is what I was saying about the profitability of securities houses – this is probably too good a service in cash value terms and over time there may need to be some degree of adjustment.

This doesn't need to be very dramatic but it is something to be done otherwise the quality of the service may tend to fall off. There are a number of ways that adjustment might happen and I wouldn't want to try and pick which way.

Q. In terms of providing service to industry or to British companies as a source of capital, how does the stock market rate?

A. I think we do a pretty good job. We provide capital on very fine terms. Over time and as the economy goes on improving and as the prospects improve terms may well get finer.

You can raise equity money more cheaply in the States at the moment than you can here, but that's a reflection of much wider influences.

Q. What other trends do you see developing?

A. Information technology we have talked about and that has been one of the prime influences. There are still growing demands by industry on the securities market, and how they are going to be accommodated is another major force for change. Ally that to stresses and strains on the banks which I think is likely to mean that there will be a greater reliance for industrial investment probably on security-based financing instruments as opposed to the traditional bank relationships. Of course that's helped by the fact that many of the major industrial companies have better credit ratings than the banks themselves.

Q. And the markets can cope with any further October 1987-type shocks?

A. Yes. There are lots of arguments to be had about the relationship between cash markets and derivative markets. As you know in the States they have gone down the route of saying 'if we don't like what we see, we'll stop it', which has never been the habit here; I don't think we want to go down that road unless we are actually driven to it.

So far the relationship between the cash and derivative markets has been much healthier in this country, partly because the open interest in the derivative markets has not been so huge relative to the level of turnover in the cash market.

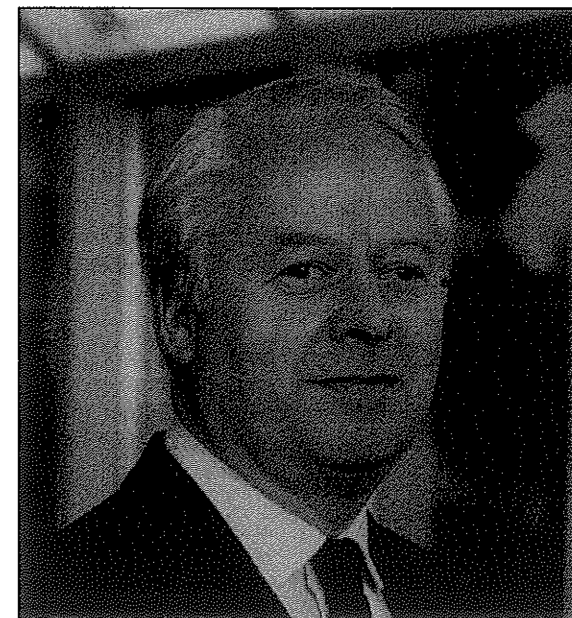
That is something that may or may not happen here, that's difficult to know, but certainly the derivatives are markets which are growing very fast. The robustness of the UK market in 1987 as compared with other markets and indeed again in October 1989 was very high indeed and again this is one of the areas where the quote-driven market-making system showed a very considerable advantage over the matching auction systems of other exchanges and that's not something that we want to throw away.

The area where we did have some trouble really arose out of the increase in volume following Big Bang rather than out of the market crash and that was in settlements.

People forget nowadays that it wasn't actually the Stock Exchange systems which fell down in settlement terms at all – they coped perfectly well – what had happened was that the registrars in particular had totally failed to react to the increase in trading levels, and some of the member firms who had expanded their business had failed to provide settlement capacity.

With Taurus coming through and with that lesson behind us, it is much less likely that we will get that sort of problem. No doubt it will happen again one day but not for a long time to come. ■

SPARKLING TRUSTS



By Nicolas McAndrew

INVESTMENT TRUSTS HAVE BEEN IN REMARKABLY STRONG SHAPE – PARTICULARLY IN SCOTLAND. THE CHAIRMAN AND MANAGING DIRECTOR OF THE GLASGOW-BASED MURRAY JOHNSTONE GROUP EXPLAINS WHY

The rejuvenation of the investment trust movement has been a key aspect of the fund management scene north of the border in recent years. The trusts' new sparkle owes a good deal to the efforts of the Scottish investment houses and they, in turn, owe a lot to the trusts.

For most of us the actual growth in investment trust assets under management has been steady rather than spectacular, despite a surge in trust launches and an unaccustomed quietness on the takeover front. Nonetheless, in the volatile stock markets of the past five years, and in contrast to the unit trust experience, investment trusts have provided the Scottish fund managers with a rewardingly solid foundation on which to build a combined net increase of nearly 90% in portfolio funds under management, to nearly £25 billion in January this year.

More than one third of total UK based investment trust assets are managed by Scottish fund managers, including 19 of the top 40 or so trusts. With three Murray Johnstone trusts among them, these 19 trusts alone have assets of around £8 billion. Apart from the Dundee based Alliance Trust and the Scottish Investment Trust, most Scottish managers spent much of the '80s seeking to diversify their traditional concentration on investment trusts. This was partly because expansion seemed necessary in order to attract and hold sufficiently talented teams to keep the trusts themselves well up the performance tables, and partly so as to cushion ourselves against the potential loss of trusts, with most of us suffering from predators at one stage or another. As a result, Murray Johnstone and Baillie Gifford have grown sufficiently for investment trusts to account for less than a quarter of assets under management, while at Dunedin, Ivory & Sime, Martin Currie and EFM they account for less than half.

The trusts, nonetheless, remain the heart of most of the established Scottish houses and are key products at relative newcomers such as Aberforth Partners. On the one hand they are a substantial and relatively predictable source of revenue. On the other, they serve as a shop window for our investment skills.

Some of the credit for the renewed vigour of the investment trust movement must go to the Association of Investment Trust Companies, which has worked hard to raise the profile of trusts, encourage innovative ideas, and lobby for a level playing field with other retail products. However some must also go to the managers, with the Scottish groups to the fore.

At Murray Johnstone, for instance, we spent the early '80s rationalising nine trusts down to five, differentiating them so as to appeal to different interest groups and renaming them so as to identify what they did and who managed them. Having put them in order we then moved to close the discount by reviving the original shareholder base of private individuals.

One way in which Murray Johnstone led the field in this respect was with an initiative designed to achieve a sustained increase in income following the Lawson budget of 1988. In other important areas such as savings schemes and PEPs, Martin Currie, Dunedin, Ivory & Sime and the Alliance were among those who showed the way.

Having reversed a 40-year trend towards institutional dominance, most of us have launched new trusts either emphasising our specialist skills or with capital structures that are tailored to meet particular needs. Meanwhile, although vigilance is eternally necessary, our longer established trusts look less vulnerable.

Most Scottish fund management groups were originally formed to provide independent investment advice to investment trusts many of which had been formed in the last century. From the start, a number of those trusts concentrated on international equity investment, where the fact that the British Empire was largely administered by Scots and that Scots still fill leading roles in many of the world's more prominent investment centres has given us an invaluable network of contacts. In seeking to diversify out of investment trusts, often in competition with much larger City of London investment houses, our skill in international equity investment has been one of our trump cards.

UK pension funds were the first important area of diversification for most Scottish fund managers. These were expanding fast in the early '80s, and our performance record and relatively low cost base helped us to gain ground. UK pension funds continue to offer worthwhile opportunities, but margins on this type of work are more cutthroat than ever now that overall growth has tailed off, therefore many of us have shifted our sights towards overseas institutions as an alternative area of expansion.

North American institutional funds are currently the prime target. This is partly because they are massive, with the Californian Public Employees Retirement System alone, for instance, having assets of around $100 billion.

In addition, while they are more tuned than most Continental European institutions to the principle of equity investment, the American public funds have only recently started to look at overseas exposure, while the Canadian institutions are currently seeing the limits on foreign investment doubled to 20%.

In competing for international institutional money, the Scots had a head start because we have a clear story to tell about management skills based on a good deal of experience. This helps, as does the fact that a number of us have recently moved to modern offices, invested in state of the art computer facilities, and generally polished up our act. Scotland's freedom so far from major scandals is another positive factor. Such upsets are less likely to happen in the smaller, more close-knit and arguably more puritan society of Edinburgh and Glasgow, where turnover of senior staff remains minimal, than in the larger, more cosmopolitan centres.

So far as Murray Johnstone is concerned, the drive for North American business has been rewarded with assets under management up from $90 million in 1989 to more than $600 million now. By the end of 1992 we hope to have more than $1 billion, and others seem similarly hopeful that growth is taking off.

Perhaps the biggest conundrum now facing the Scottish fund managers is whether to continue to concentrate on expanding our institutional business or whether we should be taking new measures to create a retail market for our products, particularly in the EC.

Where institutional business is concerned, we know how to market ourselves, our performance record speaks for us, and our relatively compact teams allow us to offer a top-level individualised service. But in a post Maxwell world that is nervous about smaller organisations, our comparatively modest size is a mounting disadvantage, while our traditional cost advantages have been eroded by the recession in the south.

Where retail business is concerned, we have been learning about marketing through our experience with PEPs and savings schemes and, at Murray Johnstone, we recently revolutionised the charging structure on our unit trusts. But no matter how well we perform, such measures alone may not be enough to secure a good response in an increasingly 'tied' world.

One solution would be to emulate the likes of Thornton and Gartmore, who have achieved instant distributive clout from their relationships with Dresdner Bank and Banque Indo-Suez. EFM is sheltered by British Coal Pension Fund and Dunedin is controlled by the Bank of Scotland, without obvious damage to their status and prospects so far, and a link with an overseas house could be even more productive and more at arms length.

Such a suggestion is anathema to certain Scottish managers, who claim that the fact that they own their own businesses and rely solely on their prowess and investment managers ensure a coincidence of interest between funds under management and their managers and enhances the cohesion of the team.

At Murray Johnstone we have in the past looked at the various options, including seeking an alliance with a large distributor to help accelerate the growth of our business. We concluded that independence remained a better option in the circumstances. But, if we want to ensure the public knows what we can offer, then at some stage we may all have to forge some new sort of relationship, between ourselves if not with others. ■

We wish the Securities Institute every success with its first issue of Securities & Investment Review.

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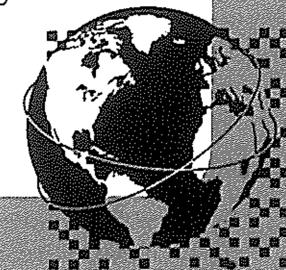


CORPORATE BONDS

THE CASE FOR A HIGH STREET SECURITIES MARKET

There is a strong case for developing a retail market in corporate bonds, and we need to cast our minds back a few years to appreciate it. The History of Cazenove by David Kynaston, recently published, gives an illuminating reminder of how corporate finance was conducted a generation ago.

In 1949, Anthony Hornby noted in an internal memorandum that Barings 'in accordance with their age-old rule of not issuing equity shares' declined to act as sponsors to the flotation of W.H. Smith & Son Ltd. In 1951 'Barings as usual declined to put their name to an equity issue' - this time of F Perkins. At the same time there were a series of very large public issues of corporate debt such as £20 million loan stock for Imperial Tobacco in 1950 or £40 million convertible issue by ICI six years later. At this time such issues were customarily for public cash subscription conducted by offer for sale in which all-comers including private investors could participate.

Similarly private investors' portfolios of the period customarily included core holdings of fixed interest stocks issued by companies as well as by government. These might include such rare jewels as Plymouth Brewery 3% Irredeemable Debentures. An old fashioned stockbroker or family solicitor acting as a trustee would probably wish to see about 30% of an old lady's portfolio in such fixed interest stocks and rely on them to produce about half the portfolio income.

At that time too the bulk of the portfolios of life funds and of pension funds would be in fixed interest stocks designed to produce a flow of income sufficient to cover the actuarial calculated liabilities stretching years into the future. Insurance companies such as the Prudential, however, were already diversifying into equities before the 1939/45 war.

After the war a number of events conspired to cause this pattern to change. First the nationalisation of the railways, and of the major public utilities removed from the market a major source of the flow of new issues of corporate debt. Unlike in France, British nationalised industries did not as a rule borrow directly in the market in their own name.

At a stroke this removed one of the major sources of supply of marketable corporate debt and reduced the size and liquidity of the market which subsequently had to rely on major industrial companies and in particular the big breweries to satisfy investor demand. Unlike issues of government debt, corporate issues cannot be treated as interchangeable, because the risk attaches at least in part to the individual issuer.

Secondly the new regulations for accounting and for prospectus requirements which were the fruit of the Companies Act 1948 went a long way towards removing the slightly risky and raffish taint that, in the eyes of Barings and others, had hitherto surrounded equity issues.

More importantly, however, the economy entered into a prolonged phase of high taxation, particularly of investment income, and of high inflation. This in turn led to the cult of the equity and phenomenon of the reverse yield gap whereby equities, previously regarded as risky and therefore requiring to sell at a higher yield than fixed interest, suddenly became transformed in the public perception into a safer investment over time because their capital value, unlike the redemption value of fixed interest stocks, could be expected to rise with inflation.

Finally the nature of life assurance and pension fund investment changed because of the need to provide for ever higher expectations of rising salaries of employees and therefore rising liabilities falling on final salary pension schemes and rising expectations from those who took out with profits endowment assurance.

The advent of active competitive marketing both among life companies and pensions schemes also led these fund managers to stress capital growth performance as well as security of income in selling their wares. Having made that promise they were obliged to switch more and more of their funds into equities to achieve the performance they had committed themselves to. The age of league tables was soon to be born, not to mention performance related bonuses for the fund managers themselves.

As a result of all these influences the market in Corporate Debt in the UK has largely died. Large companies are able to tap the international debt markets, but small companies are left to the mercies of the banks and the vagaries of short-term interest rate fluctuations. Investors similarly are largely limited to the banks and building societies as outlets for their funds and are unable to place money to lock in a favourable interest rate except in the Gilt-edged market.

No attempt has been made to present corporate fixed interest securities as a serious alternative to Bank and Building Society deposits although the redemption yields available are very close to clearing bank base rate and therefore by definition likely to be better than their retail deposit rates.

This is all the more surprising when entry into the ERM, or whatever other form of economic integration that may emerge, is likely to lock the economy into low inflation rates while keeping real interest rates relatively high. This could be another turning point which calls into question the cult of the equity which has prevailed for a generation and restores the risk/reward relationship for fixed interest against equity that prevailed before the 1950's.

What is needed then to revive the private investors' taste for corporate debt securities and to restore these instruments to their proper place in the armour of corporate financiers?

The first requirement is to devise a method of initial distribution for debt securities that is open to access by the public at large. In the 1950's most such issues were conducted by public offer for sale in which all comers might participate. Today almost all issues are by private placing direct to institutions. The only occasions when debt securities are allotted direct to individuals are when they are issued as part of a take over package. What is lacking in the present system for initial distribution is any intermediary or group of intermediaries who take up stock for redistribution to individuals.

There is no equivalent of those Eurobond houses who make a living servicing the Belgian Dentists. As a result there is no equivalent in the UK market of the Belgian Dentists themselves. All the efforts of government and others are focused on trying to persuade the public to buy equity and ignore the legitimate attractions of the high income yields and security offered by corporate debt. From the point of view of private investors such securities might be most attractively presented in the form of a tap stock where they can add a little to their holding from time to time either by a regular savings plan or as resources allow.

The problem is that this mechanism may be less attractive to the corporate treasurer issuing the stock who requires reasonable certainty that he will receive a defined sum of money at a certain date. This points to the need for a continuing service by the sponsors of the issue whereby a market is available for continuing small sales and purchases. What is needed is in effect a share-shop in every high street where small investors can place money with ICI, Whitbread's Brewery or their local plastics factory rather than putting it on deposit with Bradford and Bingley or Lloyds Bank. The difference between such placements and building society and bank deposits is that they would be at fixed, not floating, rates allowing the investor to lock in a favourable rate of return.

For most companies this service could only be provided by a financial institution with an FSA authorisation who has a widespread high street presence. This points inevitably to a clearing bank or building society. The problem is that the banks and building societies might see corporate debt as competing with their own deposits. This in fact would only be true of short-term paper.

For those companies who themselves have widespread high street presences such as the major retailing chains there is the option of setting up and securing an FSA authorisation for a subsidiary whose task it would be to take up part of debt issues by the parent and to provide a market for that debt among customers and the public generally.

There is no reason why such a subsidiary need confine its operations to its own parent's debt nor indeed why it should not also act as a share-shop for securities generally although it might not wish to run a position in any but its own parent's paper.

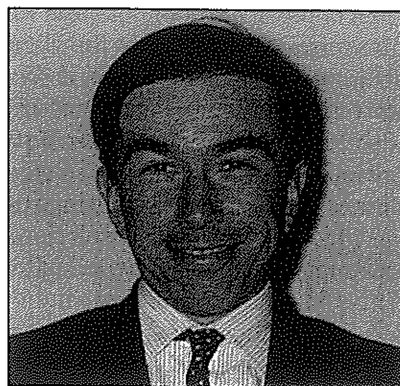
Another alternative might be to allow purchases and sales of corporate debt securities through post offices as is already the case for government debt. This would require some central pool of stock and dealing facility to which they would channel all orders as they transmit all Gilts orders to the Bank of England.

The possibilities are many and various. What is needed is the imagination to break away from the customary frame of thinking and to recognise that corporate debt issued by major industrial and commercial companies is an investment vehicle uniquely well suited to the requirements of private investors and to devise new ways of distribution and access.

JOHN HOLLIS
Information Director, Dewe Rogerson

MORE FLOATS AND LESS BIDS

The merger climate is much changed from the 1980s but flotations are keeping corporate financiers busy. AIDAN WALLIS of Samuel Montagu & Co Corporate Finance reports.



The result of the general election will undoubtedly come to be seen as a key determinant on the level and form of corporate finance activity in 1992. With both the timing and the outcome of the election in doubt throughout the first quarter of the year, activity reached very low levels as companies reacted to the political uncertainty and the very real prospect of a Labour government.

At present, with the election out of the way, trends can be seen to be emerging which suggest that 1992 will be a very different year to 1991, both in terms of capital raisings and mergers and acquisitions.

Substantial amounts of capital were raised during 1991 by existing quoted companies, predominantly through rights issues, and also by the UK government through its ongoing privatisation programme.

More than £9 billion was raised through rights issues during 1991 by a very broad diversity of companies. Earlier in the year, rights issues were predominantly property or construction related, but as the year wore on companies from essentially every industrial sector raised money. Star performers in the FT-SE 100 (such as Argyll) and medium-sized but rapidly growing companies (such as Lloyds Chemists) raised substantial sums, but the fund raising was not simply confined to companies which could demonstrate successful track records – companies facing material declines in profits, such as British Aerospace and Asda, were also able to raise substantial sums.

Although there have been some notable issues in 1992 (such as Blue Circle which raised £200 million), there is little evidence to suggest that the amount raised through rights issues in 1992 will in any way approach the amount raised in 1991. By the end of May 1992, the total amount raised by rights issues was a modest £0.9 billion.

It is likely that 1991 will prove to have been the last year of large scale privatisation by public share sale. In 1991, there were five major sales undertaken, being the simultaneous flotations of National Power and PowerGen in February, and of Scottish Power and Scottish Hydro-Electric in May, and the part-sale of the government's remaining share of British Telecom in December.

The industries currently being considered for privatisation by the government – principally British Rail and British Coal – present very different problems to those encountered previously during the privatisation process, and other means of privatisation may be adopted, such as piecemeal trade sales or, in certain instances, within British Rail, through licensing/franchises. Other government share sales are likely to be residual holdings in PowerGen/National Power (combined value £2 billion) and also British Telecom (£5 billion); the government has given undertakings that neither of these holdings will be disposed of during 1992.

Flotations, which (privatisations aside) have been few and far between since the 1987 crash, are showing signs of re-emergence. Important flotations expected to take place during the year include the Daily Telegraph and MFI, but as importantly, a number of smaller companies have already floated this year, or appear to be contemplating a flotation.

A particular 'one-off' which should be mentioned here, although not strictly a capital raising, is the proposed sale of shares by the Wellcome Trust. The very special situation surrounding this sale (no other company approaching the size of Wellcome is 75%, owned by a single shareholder) makes it difficult to draw any conclusions so far as market trends are concerned, but proponents of the 'crowding-out' hypothesis might point out that this sale is planned to take place in the first year in which there are no major privatisations expected.

The present level of mergers and acquisitions activity remains comparatively low. The relief at the outcome of the general election undoubtedly raised the number of enquiries received by Corporate Finance departments from clients, but this has yet to translate into a greater deal flow.

The level of business confidence remains closely tied to the economic outlook, which has refused to show signs of prolonged improvement.

Companies still have plenty to do in terms of addressing the problems being presented by the economic circumstances in respect of their existing businesses, without acquiring new businesses with new problems. In addition, the desire to take on acquisition debt or to acquire a heavily-indebted company is limited.

Whilst caution on the part of acquirors is understandable, the advantages of timing an acquisition to coincide with the economic upswing are double. Not only may the acquiring management take credit for the increase in the target's profits arising from the economic upswing, but there are often opportunities to parcel away outstanding redundancy and re-organisation costs into pre-acquisition reserves, without impacting on the acquiror's profit and loss account. Redland's bid for Steetley, announced two weeks after the election, may turn out to have been timed too early; TI's timing of its bid for Dowty may yet prove to have been excellent.

There are prospects of well-managed private companies being offered for sale in reasonable numbers. Most particularly, these may prove to be Management Buy-out companies, formed in the late 1980s but constrained from selling out until now by the tendency for profits to have generally fallen as the UK entered and then endured economic recession.

Hostile bids will undoubtedly continue to be a feature of the London market, but there are few who believe that there will be a return to the mega-bids of the late 1980s.

Bidders' propensity to go hostile will be tempered by the desire to know in advance of black holes, which might take the form of higher-than-expected indebtedness, heavily loss-making subsidiaries needing re-organisation or closure, or other crystallised contingent liabilities.

Many UK companies are expecting their next acquisition to be in Europe; this bodes well for those corporate finance departments with extensive European networks. The longer lead times associated with European acquisitions may mean that the post-election boost to confidence may yet manifest itself here, but downsides to acquiring in Europe at present are the difficulty in finding and researching suitable targets, and the fact that many European countries are still heading down the economic cycle or are thoroughly entrenched in a recession.

The financing climate for acquisitions remains broadly positive. The stock market is high by historic standards and appears from both private and public acquisitions carried out so far this year to be generally receptive to well thought out transactions. Bank finance is now cheaper, following the fall in interest rates, and likewise is generally available to support the right acquisition.

> *'Many UK companies are expecting their next acquisition to be in Europe; this bodes well for corporate finance departments with European networks'*

European and other overseas companies will continue to be important buyers of UK businesses, attracted by the political climate, the expected economic recovery and the open stock market.

Although 1992 shows signs of considerable differences from 1991, the outcome of the general election ensures that order books for the City's Corporate Finance departments will remain healthy for the next three or four years.

Particular sources of business in 1992 may well turn out to be flotations and business sales, both sources to some extent arising from MBOs wishing to exit.

Other sources of work, which tend to attract less day to day publicity, but which nevertheless require considerable amounts of time to be devoted to them, will continue. One such source is corporate refinancing/reconstructions, including the complex renegotiations of bank facilities, as was seen during 1991 with companies such as Brent Walker.

Corporate financiers are also increasingly seeking to export their skills acquired in the UK. Already, considerable amounts of work are being undertaken throughout Europe as governments seek to follow the UK's lead on privatisation. Depending upon the progress of legislation, particularly in the EC, the art of the hostile bid may come to be appreciated outside the Anglo-Saxon world. ■

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EUROPEAN BATTLEGROUND FOR FUTURES

There is intense competition between London, Paris and Frankfurt to be the leading European financial centre. BRIAN DURRANT of GNI explains the battle in the financial futures markets.

Competition between London, Paris and Frankfurt over the trading of similar futures contracts provides an interesting insight into the relative strengths of these locations as trading centres. Futures markets are broadly comparable and their volume of business can be easily measured.

The success of a futures contract should ultimately reflect market competitiveness as opposed to official arm-twisting. In other words competition between futures exchanges is probably conducted on a more even playing field than most of the other financial services in Europe.

There are currently three financial contracts which are traded in direct competition between European futures exchanges: The German bund on LIFFE and the DTB, the ECU bond on LIFFE and the MATIF, and the Italian bond (BTP) on LIFFE and the MATIF.

The LIFFE German bund started trading in September 1988 and has been an extremely successful contract, exceeding even the expectations of the Exchange's officials. In the first 12 months more than 3.2 million contracts were traded. In the following 14 months preceding the launch of the German bund contract on the DTB, LIFFE volumes averaged around 770,000 a month. In the next 14 months LIFFE volumes held up at nearly 750,000 a month. Moreover, in the first four months of this year following the move of the LIFFE trading floor to Cannonbridge, volumes were running at more than 1.2 million a month.

In November 1990, the Deutsche Termin Borse (DTB) launched a German bund contract; the main differences between the two contracts is that the LIFFE contract has a three-day delivery process against the DTB's two, while futures contracts are traded by open outcry on LIFFE as opposed to an automated screen based system in Germany.

Although the competition of the German exchange has not reduced LIFFE's volume of bund futures business in absolute terms, the chart, right, shows how the DTB gradually increased market share throughout 1991 reaching a peak of 35% in November. This trend was only stemmed by LIFFE's recent move to Cannonbridge. Market share has now stabilised at around 70/75% : 30/25% in favour of LIFFE.

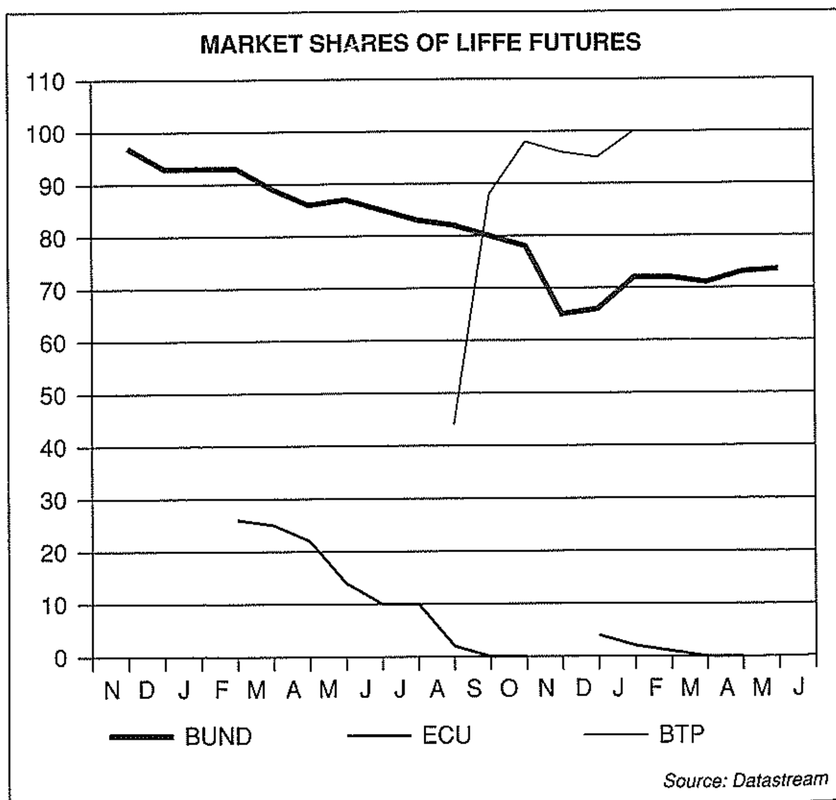
It is worth pointing out that although the dominance of LIFFE's bund contract is not in doubt, the DTB's contract has not sunk into oblivion. This may seem odd given that it makes sense to trade in the more liquid contract. There are two possible explanations for this.

The first is that it is rumoured that the German authorities have requested German banks to maintain their commitment to the DTB by trading a certain number of lots per day. This has not been officially corroborated while an equally plausible explanation is that German banks, having invested heavily in the automatic screen based system, feel obliged to use the facility rather than let it gather dust.

One lesson is that LIFFE enjoyed a healthy head start in trading bunds and its lead has remained secure.

LIFFE was noticeably less successful in competing with the MATIF on the ECU bond future. In fact volumes on LIFFE are now extremely low. There are three possible reasons for the relative success of the MATIF contract. As with LIFFE bunds, the MATIF enjoyed a head start trading ECU futures (the MATIF contract was launched on December 28, 1990 while the LIFFE equivalent started on March 6, 1991.)

Second, the French authorities exhibited a very strong commitment to ECU bond issuance. Three of the four ECU bonds deliverable into the September future are OAT's while 56% of the ECU 11.8bn triple A bonds of more than five years to maturity are issued by the French government or its agencies. Finally, bond spread trading between the MATIF notionnel and ECU futures has proved popular.



Recognition of the importance of a head start in launching futures contracts encouraged the MATIF to bring forward the opening of BTP futures trading in Paris ahead of London (the MATIF contract was launched on September 5, 1991 while the LIFFE future commenced trading on September 19, 1991.)

However this manoeuvre was not successful. The fact that the cash market for Italian bonds is located in London, and that LIFFE had established itself as an international futures market proved clinching factors in determining the success of the LIFFE contract vis-a-vis the MATIF future.

It has also been argued that the choice of a 12% notional coupon for the future on LIFFE made the future more comparable with the cash (the MATIF contract was based on a 10% coupon BTP), while the LIFFE contract, being twice as large, was more economical to trade in terms of margin requirements and commissions.

The LIFFE market trades contracts in seven currencies, by comparison with two on the MATIF and one on the DTB.

It has certainly established supremacy as the international financial futures market in the European time zone. But there is no justification for complacency.

The number of futures contracts traded in relation to cash transactions is greatest on the MATIF notionnel contract as is the volume of options traded relative to futures.

A futures market will be established in Milan soon, on a screen base system. However, this market is not expected to be competitive in volume with the LIFFE market, but will allow the introduction of participants who are not confident about foreign markets and would prefer to deal in new financial instruments in a domestic environment. But in time this difference should diminish and business will ultimately be drawn to where the liquidity is greatest.

This process should ensure LIFFE's survival as the principal international futures market in Europe.

Even before the advent of exchange traded futures and options, London has historically been the major trading centre in Europe.

It would therefore be natural that London would establish a head start in trading derivatives. Whether this lead can be sustained is still unclear.

Will London's financial leadership be surrendered in the same way as the UK's manufacturing leadership or will London's success as a financial centre be maintained by its distinctive, less intrusive, regulatory framework? Some of these advantages could be lost if the UK succumbs to monetary union as UK banks would be subject to more onerous reserve requirements in order to bring them more into line with continental Europe. ■

NEW MOVES AT LIFFE

On June 2, Mr Nicholas Durlacher was elected chairman of LIFFE in succession to Mr David Burton. Mr Durlacher, who is also chairman of Barclays de Zoete Wedd Futures, has been on the board of LIFFE since 1984, serving as deputy chairman of the Exchange since 1988.

At the beginning of June LIFFE annouced details of its planned priority areas for the development of its equity and index options business. The development priorities that were decided upon follow a survey of, and extensive consultation with, members of the Exchange specialising in equity and index options.

Since the merger of LIFFE and the London Trade Options Market (LTOM) on March 22, 1992, trading in equity and index options has averaged a daily volume of 35,825 contracts, an increase of 41% over the same period last year. Nicholas Durlacher noted: 'A clear message from the discussions with market participants was that there is considerable scope for growth in equity and index options business, and that the growth in trading volumes evident since the merger will continue in the future.' He added: 'I am confident that the initiatives announced by the Exchange will contribute considerably to the future growth in equity and index options volumes.'

Priority areas of development identified by the Exchange relate to:

- Price Generation and Dissemination – the development of systems and procedures to disseminate automatically accurate and up-to-date prices for equity and index options
- Education and Promotion – the initiation of an education and promotion campaign, targetting both institutional and retails users. The survey revealed the need for an extensive programme of education as there is currently a considerable lack of understanding of equity options amongst potential participants.
- Liquidity – in order to facilitate the continuing increase in liquidity of equity and index options, the Exchange plans to produce advanced guidance materials, detailing 'London specific' equity options characteristics. These materials will be used to encourage additional organisations to participate in 'price making'. The Exchange also plans to develop facilities to enable brokers to handle the pit broking of customers orders in an increasingly efficient manner.
- Trading Arrangements – trading procedures and systems will continue to be developed to meet users' needs. The Exchange will look at ways of enhancing facilities to enable easier execution of large orders, within an open outcry environment and procedures to accommodate more readily the periodic requirement of users to execute a composite transaction involving underlying equity as well as equity options elements.
- Order Execution Systems – the Exchange proposes to develop an order execution facility to make the market more accessible to brokers and clients.
- Co-ordination with the London Stock Exchange – it is intended that current communication channels be further strengthened to co-ordinate the related developments of LIFFE and the London Stock Exchange.
- New Products – the result of the survey were clear in identifying long dated options, both for index products and individual equities, as being the product development most likely to attract new business if they were to be listed by the Exchange. A study will be carried out to examine the most appropriate products and how the Exchange can best facilitate the trading of long-dated products.

Launched on May 12, 1992, LIFFE's three month Eurolira ('Eurolira') interest rate futures contract made a promising start. By the end of the month a total of 18,596 contracts had been traded, representing an average daily volume of 1,430 contracts, and open interest had built up to a substantial 7,435 contracts. ■

COUNTING THE COST OF THE REAL BIG BANG

As the shake-up in Britain's securities markets continues apace, JEFF SUMMERS argues for a European solution

It is now nearly seven years since London's cosy world of single capacity brokers and jobbers gave way to the Big Bang of integrated securities trading. Back in the mid-1980s no price seemed too high to pay for the likes of James Capel, Hoare Govett, Vickers da Costa and Scrimgeour. Eighty or 90 million pounds was, of course, a welcome bonus to the partners concerned, but for the likes of Citicorp and Security Pacific the entry fee to the promised global securities market seemed modest and the potential rewards just too good an opportunity to miss. Seven years later, those dreams have turned into nightmares.

In the intervening period, many of the oldest names in the industry have gone to the wall, fortunes and reputations have been lost, the Americans have been and, (mostly), gone and the concepts of a global securities market and the one stop financial supermarket are yesterday's fashions.

If the 1980s saw an explosion in City salaries and employment prospects, the aftermath of Black Monday has obliged every company to review its headcount requirements.

Hardly a week seems to pass without news of the latest downsizing exercise or the sight of yet another beleaguered American bank packing its bags and beating a costly retreat back home to Dixie. Yet, just at the time when a number of London brokers can be acquired for sums equating to a little more than their accumulated tax losses, the long term prospects for the industry have never looked better. The momentum for the real Big Bang of an integrated European securities market is at long last gathering pace and it is no accident that American owners are being supplanted by a new breed of European investment bank.

The logic for Big Bang Mark 1, was, (with benefit of hindsight), always fatally flawed. The fact that the concept of the global market place seemed to make sense, could never compensate for the increased level of competition, lower commission scales and the non-appearance of higher trading volumes. As everyone played the game of adding resources, so hardly anyone seemed prepared to ask if the business was really there to warrant the investment. In fact the whole question of integrated securities trading, with inevitable compliance problems coupled with escalating conflicts of interest, only served to hide the wood with the trees.

Was a corporate client really interested if his broker offered one stop investment services in 18 countries if, at the end of the day, that same broker was still hard-pressed to get the latest rights issue away successfully? The same client was also likely to be singularly unimpressed by the ever increasing squabbles between his broker and merchant bank about the prickly problem of demarcation lines.

The cost of information technology alone should have proved sufficient to ring the alarm bells somewhere in New York or Los Angeles but, by the time the truth dawned, many owners were left with little choice but to close down and write off the whole investment. Small wonder then that the strategy of a number of European banks, particularly in the past two years or so, has gone largely unnoticed with, for example, most observers baffled by UBS's seeming willingness to support Phillips & Drew at any cost. Europeanisation is the name of this particular game and its implications, in what could be called Big Bang Mark 2, dwarf the beleaguered point scoring of the 1980s.

The European Commission has been looking at ways to free up securities trading in Europe's post 1992 single market for several years. However, it is the EC Commission's proposed changes to the existing 1980 Directive on cross-border Stock Exchange listings that should really let the cat out of the bag. London stands to see its role and power significantly enhanced in the medium to longer term, most probably at the cost of both New York and Tokyo.

Picture a truly European wide market, with all major European companies enjoying multiple listings on say 12 exchanges, through the proposed Eurolist. We might even see the day when the Eurolist quotes are given in ECUs, to truly abrogate national border or currency considerations. Not a global securities market maybe, but as near to the envisaged demolition of market borders as we are likely to see this century and certainly the reason why a clutch of European banks are willing to take a long-term view and back the likes of Hoare Govett and Phillips & Drew with hard cash. Note also Union Bank of Switzerland's decision to scrap the P&D name in favour of its own corporate European identity.

In this wider Euro market, institutional investors will be obliged to base their investment strategy not on domestic sector analysis, but on Euro sector valuations and judgments. In this environment, the days of single centre, relationship-based corporate broker look to be numbered. In the long run, even a clearly differentiated and independent broker such as Cazenove, will find it increasingly difficult to persuade its long list of corporate clients that their best interests will be served only at number 12 Tokenhouse Yard.

The same corporate client will certainly see little logic in paying multiple fees to brokers of different nationality across Europe when, for instance, the likes of Union Bank of Switzerland could, in the near future, offer unified primary broker, bank and merchant bank services across the whole of Europe.

In retrospect, the Big Bang philosophy of the 1980s was wrong on two counts – timing and the preoccupation with global rather than European market factors. The mid-1990s should set the record straight, with an increase in European cross-border share dealing volumes. The winners will be those European banks that see the logic of a European dealing and transaction network. The losers, (and there will be many), will be those brokers, banks and merchant banks that ignore the message of Europeanisation and continue to believe that their domestic market somehow owes them a living. ■

MAKING MONEY IN PROVINCIAL BROKING

Big Bang produced shock waves in the City – but regional stockbrokers have prospered. RICHARD LARNER of Waters Lunniss reports

Provincial stockbroking has undergone dramatic changes since the pre-Big Bang era and, contrary to expectations, the majority of them have been beneficial.

Probably the single most important contribution resulting from the de-regulation of the Stock Exchange in 1986 was the introduction of SEAQ. Vilified by outsiders for its so called unreliability and treated with suspicion by practitioners used to the market floor, the computerised transmission of price quotations brought provincial firms far closer to the hub of market activity.

Prior to its introduction, country brokers had to either transact this business through a London agent or maintain a dealing facility on the floor of the Exchange. At the vanguard of technological development, price quotations from the floor could, in the latter stages, be obtained via radio telephone link with the firm's London dealers; fun at times, but nowhere near as straightforward as pressing a few buttons on a SEAQ terminal keypad. In terms of determining up-to-date prices and dealing, Big Bang brought provincial brokers far more closely in touch with the London market.

Another important benefit of Big Bang was the greater availability of research material. Beforehand, the large broking firms who could afford to support in-house research departments would keep their output very much to themselves. Afterwards, the new integrated securities houses became willing to create relationships with other smaller players by making such material available.

The combined effect of the 1986 changes was to put provincial brokers on a far more level playing field with their London-based counterparts. No longer need they be regarded as second rate by comparison – the demise of the Stock Exchange floor, mourned by so many in the City represents a cause for celebration amongst country brokers, who no longer need to withstand the criticism 'yes, but you surely cannot have your finger on the pulse if you are outside the Square Mile'.

Provincial brokers are, of course, primarily engaged in the private client sector, where they are able to offer a high level of personal service. In the period following Big Bang, the larger London based securities firms tended to shun the private investor in favour of the supposedly more lucrative institutional client. Salaries and office rents in London rocketed, which meant that in the provinces, private client business could be carried out more profitably.

The aftermath of the October 1987 crash resulted in another interesting development in the provincial broker's favour. Most of the large cost-burdened London houses found the need to introduce management fees, a measure which was rather unfortunately timed to coincide with generally poor stockmarket returns.

In many cases, increasingly higher minimum portfolio thresholds for direct equities turned away another group of dissatisfied clients not wishing to convert into unit trusts. In addition, the accent was placed more on offering discretionary portfolio management than the traditional advisory facility, which is at the heart of the personal stockbroking service.

In spite of difficult stockmarket conditions in the years which have followed the 1987 crash, provincial stockbroking has been advancing. For example, in Norwich the one firm which existed 10 years ago has been joined by another four. In Bury St Edmunds, only one firm was represented in October 1987, yet now there are three and nearby Stowmarket, with a population of 13,500, saw the opening of a branch office of a London based firm in 1990.

The current provincial stockbroking scene is principally covered by two types of operation. First, the firm based in a provincial city or town, which may or may not have additional branches and second, the branches of London based firms. Whilst many of the provincially based firms carry out their own back office function, taking advantage of lower overheads than the London based firms, others are able to use external clearers and this represents an ideal way of limiting the amount of initial capital required to set up a new business.

It is notable that three quarters of the member firms of APCIMS, the Association of Private Client Investment Managers and Stockbrokers, participate in provincial stockbroking.

Provincial brokers not only have the advantage of being near their clients, but are also able to develop relationships with local quoted companies, press, solicitors and accountants.

Most provincial stockbrokers have so far resisted the trend towards levying management fees for portfolio services and those who do generally charge only modest sums.

Many provincial firms have capitalised on the Government's privatisation programme by offering competitively priced commission terms in the weeks after flotation, mostly undercutting the big four banks. Some have seen the benefit of making their premises more accessible and offering share shop facilities which welcome new clients who tended to find the image of a stockbroker rather forbidding. Not only does this appeal to the privatisation holder, but also to the employee shareholder who wants a more personal service than his company's special dealing scheme. Ever spiralling costs in London, together with the Conservatives' recent general election victory should enable provincial brokers to capitalise further on their many opportunities. ■

A BETTER WAY TO MANAGE CASH

Managing cash is a crucial part of investment. PAUL ORMROD sets out a new service to private clients.

His clients have a lot of it; cash that is. And the stockbroker should manage more of it; because he can do it efficiently, with a good quality service and make money from doing so.

We know that a stockbroker's private clients keep a proportion of their wealth in cash (quite apart from the cash that the stockbroker maintains in a discretionary portfolio). Client bases differ but, typically, for every £100 million of stocks and shares managed or advised upon, the stockbroker's private client base has cash deposits of say £20-30 million. How does the stockbroker attract and retain cash?

First a word of caution. Only banks can offer a deposit taking service. This means that the stockbroker must team up with a bank of his choosing. This does not mean being owned by a bank, nor indeed owning a bank.

The next important issue is to recognise that deposits don't move easily. It is better to catch the cash running through the system (sales proceeds and dividends) and give it a good home so that it doesn't need to go anywhere else, rather than competing for deposit account balances.

Then recognise what private clients want from a cash management service. Most stockbrokers think 'the highest rate of interest'. In fact clients want security; convenience, access and personal service; and performance.

The stockbroker can provide all this in his cash management service. Using new technology, he can set up one or more bank accounts for each client into which all money flowing to and from the stockbroker is banked, and against which the client has a cheque book (why not a card too?). The stockbroker can put his own label on the service and arrange unique interest and charging structures. In short, he can develop an exclusive product tailored to the needs of his client base.

The stockbroker will recognise some sticking points: the stockbroker must have first call on available funds to settle purchases; and he doesn't want the discretionary service client to spend his discretionary portfolio cash.

The tendency will be for cash from sales and dividends to build up in the bank accounts, provided that interest rates are satisfactory, because it is convenient and the client can have access to funds how and when he requires.

For this to work, the cash management service must be fully integrated with the stockbroking service. Arm's length free money accounts, into which surplus funds are transferred by the stockbroker, simply don't qualify. In effect the client ledger must become a string of bank accounts with cash flowing into and out of those accounts automatically for bargain settlement. And it follows that the statement must be a combined banking and stockbroking statement (which ties in nicely with the needs of rolling settlement).

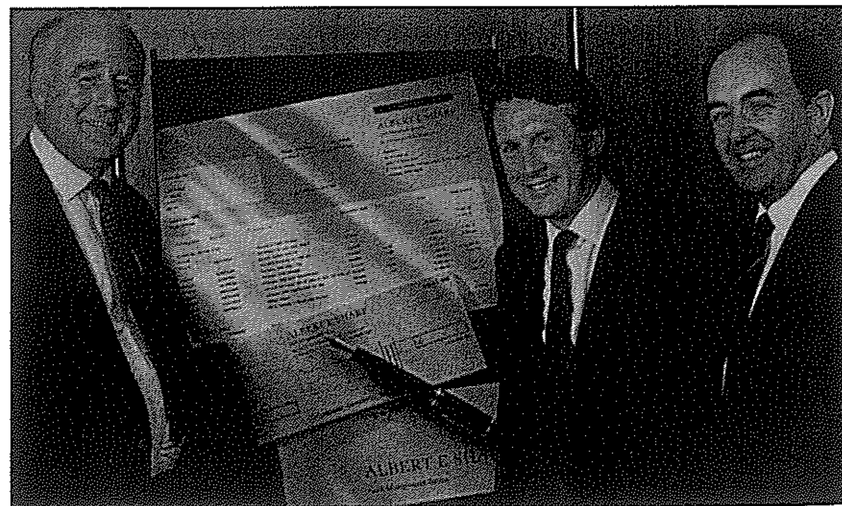
Because the client has a cheque book on his account, the execution of a bought bargain must earmark available funds at the time that the deal is done to ensure cash settlement (ordinary banking systems in the UK do not do this). Discretionary portfolio cash, PEP cash and other cash of a capital nature, should be segregated from the new cash, ensuring stockbroker control.

As important as anything else, the cash management service should be provided under the stockbroker's label and not the bank's label. Of course, the documentation of the service must clearly indicate who the banker is.

Computer technology plays a vital part in this process. And it is technology that has not been commonly available in this country. Albert E. Sharp & Co, an independent stockbroker, is one firm of stockbrokers who are introducing this type of cash management service for its private clients using the latest technology available and in association with Bank of Scotland. They use the computer systems of CASHFAC Initiave Limited, a company that specialises in systems and marketing initiatives for cash management by stockbrokers.

The CASHFAC is designed to link any stockbroking system with any bank. Although it is independent, its preferred bank is Bank of Scotland.

The Albert E. Sharp Cash Management Service includes cheque books, statements and paying-in books, all of which carry the Albert E. Sharp label. These things are obviously not just a bank's standard products overstamped. The whole appearance of the service is different and even the interest rates and charges are specific to Albert E. Sharp. The result has been that Albert E. Sharp have already successfully completed part of their preparation for rolling settlement. ■



Ian Wade of Albert E. Sharp, Paul Ormrod, CASHFAC, Alan Rennie, Bank of Scotland.

PRIVATE CLIENTS ARE A SOURCE OF STRENGTH

Private clients are an increasingly desirable customer base for stockbroking firms according to JOHN COBB, the chairman of APCIMS, the Association of Private Client Investment Managers & Stockbrokers. He sets out the case for building this type of business.

If you ask a British farmer how he is doing, it is always too wet or too dry, or prices are too low, or nobody in authority understands him. I sometimes feel that private client stockbrokers adopt the same policy. It is of course true that after Big Bang we experienced some lean years but never, I believe, the famine which hit the institutional and corporate finance brokers in the late 1980s. A bit of belt-tightening, certainly, and a bit of rationalisation – and that probably not before its time.

The point is, however, that private client brokers have lower overheads than our more exotic cousins and, thank goodness, more loyal clients. As a result, things really have turned around in the last year or so. A good market helps no end. Volumes are up and clients are happier. Fortunately, we are not seeing the excesses of the mid '80s and I certainly believe that the quality of business is better today than it was then.

Stockbrokers can really plan ahead again, helped by the knowledge that we have five years relative political stability in the UK ahead of us.

It is nearly five years since the crash and soon the five year medium term performance statistics will start to look good again. What is more, the number of private client stockbroking firms, after a period of consolidation, is now on the increase. Some of these new firms have been set up from a base of independent financial advisers. Others stem from amoebic growth where individuals have split off from bigger firms, and one or two have been started by people entering the investment world for the first time.

As a matter of interest, APCIMS, with 118 members and more than 300 offices, represents well over 90% of the private client stockbroking community. Our Annual Conference in May, generously sponsored by Smith New Court Securities Ltd, was perhaps the largest gathering ever of private client stockbrokers in the UK.

I believe that the development of new firms will be encouraged by the growth of Model A and Model B clearers – those organisations which can take some or all of what used to be known as the back office away from individual firms and run them on a collective basis. Although we do not yet know the final shape of the European Community's capital adequacy directive, the use of a Model B clearer should significantly reduce a firm's requirements for capital. Firms can then concentrate on what they do best – advising private individuals on their investment matters. I can see this as a growth area in the years to come – that of the advice boutique.

Of course there are problems and clouds ahead. Taurus remains the most obvious one. Somehow, private investors must be educated that dematerialisation is a positive move which will be to their advantage. Obviously, security of holdings is paramount but, equally, the removal of the present antiquated paper driven system has to be welcomed. Indeed, given the associated development of rolling settlement, to bring the UK in line with most other leading stock markets, dematerialisation would be essential if the tight timetables for rolling settlement can be met. On that score, I attach the greatest importance to the retention of 10 day rolling settlement as an option for private clients once the industry as a whole moves to three day. It will be a long time before many private investors can be so organised so that the three day timetable, so beloved by the institutions, can be met.

There have been signs recently of more sympathetic regulation, particularly from the Securities and Futures Authority and I hope that this trend will continue. Over-regulation may seem protective to clients but it does tend to frighten them as well.

Market making for all stocks may also not continue and again the capital adequacy directive will have a big part to play in this. The Stock Exchange is working to ensure that there will be a continuing and continuous market in the middling and smaller stocks. I would like to see some of these smaller stocks perhaps being operated once again more on a regional basis. They simply do not have the marketability to qualify for a national market and these companies are perhaps better serviced by concentration on a regional broker network and mainly local shareholders.

Private client stockbrokers have had to support the government's privatisation programme which has resulted in too many very small shareholders. We are now seeing a period of some consolidation and I believe that the era of mass shareholdings is now behind us. What I would like to see is some real deeper share ownership.

There are perhaps only half-a-million portfolio investors in this country and all the statistics suggest that this could and should be doubled pretty quickly. Greater house ownership earlier in life will tend to release capital for investment when the houses of the older generation come to be sold.

Many more occupational pension schemes will be maturing with valuable cash options, again producing investment capital. Recovery from recession, provided that it is soundly based, will again make equity investment more attractive.

All in all, therefore, now that industry rationalisation is behind us and the investment skies are looking lighter, I see a bright future for private client stockbrokers provided we are freed from burdensome settlement costs. Perhaps those firms who gave up the private client in the euphoria of Big Bang are now regretting it. ■

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In th was entrepreneurial, not only for the partners, but also for associates and staff. In the good years, bonuses were often larger than basic salaries, and you had the opportunity to accumulate some capital. The essence of that working environment is being recaptured by a small number of institutional brokers working as self-employed sole traders or in small partnership teams.

The principle is simple and uses the traditional commission sharing relationship, which is as old as stockbroking itself. In return for using a firm's name and facilities, the firm keeps a proportion of the commission generated by the broker. This proportion can vary from firm to firm depending partly on a firm's policy, partly on the facilities offered, and partly on the quality of the associate's business.

Most of the smaller firms offering commission sharing deals are private client orientated where the level of back-up needs to be little more sophisticated than a Topic screen and Extel cards. Good commission generators can go a long way towards paying a firm's expenses thereby making its core private client business profitable.

These traditional relationships are capable of being developed for institutional business.

A better level of information input is required, all of which can be delivered electronically: the tools for the job have never been better. There is little need to employ number-crunching analysts, although there may be a role for someone to co-ordinate the available information.

Because of the operational freedom such an environment provides, life for the brokers in it is of course very different from that of their confreres in the larger firms. but it can be financially much more lucrative.

says there is

There are other advantages. The principal one is the job satisfaction which motivates everyone who chooses to run their own business. You have the flexibility to generate commission in a wide range of securities. Thus, my business is increasingly moving towards gilts and Eurosterling issues now that HMG is printing debt again. In a larger firm I would probably be constrained to selling equities, possibly with an emphasis on a sector which is temporarily unexciting.

The increasingly international aspect of broking offers opportunity for the independent, both in terms of origin of securities and clients. In the last 18 months, I have dealt in Swedish equities in London for the Luxembourg funds of a Swedish bank, South African Escom bonds for a German institution, and Greek equities for a Luxembourg bank. For brokers with international contacts, there is the opportunity to capitalise on the traditional view that most things can be done in London.

There are of course drawbacks. Most large institutions restrict their list of brokers to a few large houses. They demand a constant stream of high cost research, as well as access to large lines of stock. Since Big Bang these institutions have needed stockbrokers less and less, merely requiring access to the market. Unless a broker can contrive a very special relationship, big UK institutions are a waste of his time and effort.

It is the smaller institutions that offer considerable scope: they can react to stock-picking suggestions, they often require a discreet broker to accumulate a position, or they are happy to pass on orders which are unprofitable

Of course, the large firm environment has its advantages. It offers fringe benefits such as subsidised mortgages, cars, and in-house catering facilities. All expenses are paid, which can represent a considerable sum. You can achieve a respectable income without too much brain strain, and it is nice for some to be associate director, vice-president or whatever at a well known firm of stockbrokers. But for many, the principle benefits of job security can no longer be taken for granted.

It is accepted that there is too much capacity in banking and related activities. A team or individual broker axed by one firm can no longer automatically find employment elsewhere. Much talent is leaving our industry.

Many of these people cannot visualise a role as a self-employed broker, probably because they believe that their business wouldn't follow them to a smaller firm, or probably because they haven't really thought about it. This situation might therefore provide an opportunity for new or existing firms to expand their broking activities on a cost effective basis.

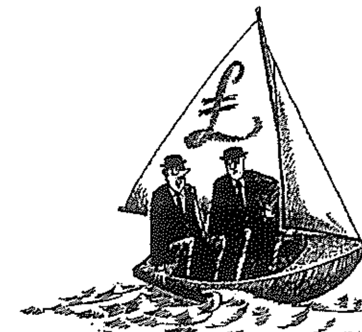
That none have sought to do so is as surprising as the mysterious absence of the entrepreneurial spirit for which individual brokers have been known in the past. Many American firms, which went through their Big Bang before we did, offer their salesmen commission related deals, so why not ours?

Perhaps our market will evolve towards the American model in time. If it does, much of the broking talent which will otherwise be lost to securities markets may be retained. By increasing the overall entrepreneurial content, stockbroking will benefit as an industry, not least because it will help de-institutionalise it. ■

AFTER HOURS

STOCKBROKERS ALL AT SEA

July 17 finds the pride of the London Stock Exchange's sea-faring men and women down at the pretty Seaview Yacht Club on the Isle of Wight. The Williams de Broe team, led by 53-year-old investment manager Foster Swetenham, will be out to do better than last year when they won only after a protest disqualified the first boat home.



Despite this technicality Swetenham is so confident that he says, 'We may enter two boats this year just so we can have a bit of a race amongst ourselves. As a firm we have now won the Stock Exchange Kemmis-Betty Trophy three times. We won it once with Charles Perry at the helm and he also won when he was at Kleinworts.' Perry is helped by the fact that his own boat is moored up the coast at Bembridge.

The race is sailed in the unique fleet of wooden Seaview Mermaids which are hired for the day. Commodore of the Stock Exchange Sailing Club, John Donovan of Shaw & Co says, 'We usually get around 10 entries and it is always pretty close. The sailing at Seaview is tricky, not only are the tides very odd but there is also the problem of sandbanks which sometimes are too much for some crews. No one is used to the boats which adds to the difficulty but it is always a good day and an excellent evening and generally the standards of sailing are getting better.'

Despite his play-hard remarks Foster Swetenham says, 'Its all a bit of fun, of course you want to win but no one takes it seriously enough to practice or anything like that.' ■

A Magic Man

This is a busy summer for David Ramage. Not only has he just set up the Nordic desk for institutional sales of Scandinavian stocks for Danish broker Bikuben-Whitefriars, he also has to tame a large garden in Teddington, control two small children and get in shape for his Magic Circle exams.

'At the moment I am just an associate member of the Magic Circle and I will have to practice quite seriously if I want to pass the eight-minute concert test you must do to make full membership', says Ramage. Magic is something he has always been interested in and he has been performing in local events for 20 years.

'If you like, there is a similarity with the markets, since what you are dealing in is the difference between perception and reality. The essence of good magic is not doing the trick quickly or up your sleeve, but playing with the audience's mind.

'You have to make the audience think they are seeing something they are not, magic is not in the hands of the magician but in the eyes of the beholder', explains Ramage.

If Ramage does pull his Magic Circle exams out of the hat he will join David Monk of WI Carr (UK) Ltd and Tony Hudson of BZW both who know all about pulling rabbits out of hats. However, last year in the Square Mile Trust concert at The Adelphi in the Strand, David Monk did a trick which not only seemed to involve eating razor blades but ended up with a lot of blood - or was it ketchup - on his starched shirt. Ramage says, 'My wife won't let me do dangerous tricks.'

One trick that he will be trying to get going is the Scandinavian market's upward curve. 'The Scandinavian economies have much publicised problems both in real estate and banking (where have we read that before), and I am more bullish because of the amount of money wanting to get in than because of any fundamentals.' Sounds like time for changing the audience's view of reality.

Ramage and his team were recruited from Neilson Cobbold. Ramage is rated as one of the top 10 'players' in Nordic market stocks. ■

Into the Lion's Den

You do not get a more traditional or successful provincial stockbroker than Keith Loudon, senior partner (as was his father) of Leeds based Redmayne-Bentley which now has eight outlets and more than 20,000 clients. Since 1968 he has been a counsellor in Leeds, last year he was deputy Lord Mayor and next year, although he is too modest to comment, he is widely tipped for the big job.

It should have few terrors for him, for while the Mayor was out of town, it was Loudon's job to pick up a £500 charity cheque from Chipperfields circus. For the circus to get its pound of publicity flesh out of the stunt this involved the councillor going into the lion's cage to collect the cheque.

'They held me very firmly by the wrist so that I wouldn't make any sudden movement, but I could literally smell their breath and I must say they are very big animals. We also had a problem on the day with animal rights protesters making a fuss, but the lions looked happy to me', says Loudon.

'Most of my official jobs were more serious, not least when I awarded the degree at the business school at Leeds Polytechnic. The star pupil was our representative Andrea Cowgill. We are lucky in Leeds in that although we Tories are in a minority, this is not a council where people throw things at each other', explains Loudon.

As for the private client market over the next term, Loudon says, 'Without the major privatisations there will be more need to service and educate the public to create interest. It is important we don't forget that, although it's vital that London is an international centre, unless the grass roots are maintained, we are all losers.' ■

HUGH THOMPSON

SECURITIES INSTITUTE DIRECTORS

The Directors of the Securities Institute have been chosen from a range of professions within the securities industry. The board currently consist of 11 Directors but one or two further names are expected to join.

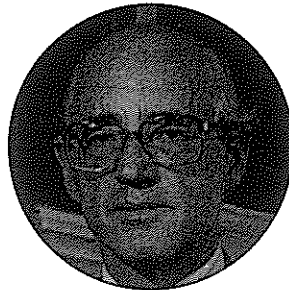
GRAHAM ROSS RUSSELL - Chairman
Formerly Deputy Chairman of the Stock Exchange and Chairman of Laurence Prust. Currently a Director of SIB and CCF Foster Braithwaite.

STEPHEN COOKE - Chairman of the Professional Education Committee
Chief Executive of Gerrard Vivian Gray and member of the Stock Exchange Board.

CLARE GORE LANGTON - Chairman of the Social Events Sub-Committee
Director of Laurence Keen.

TED GREEY - Chairman of the Regional Committee
Director of Albert E Sharp and former Chairman of the Stock Exchange Regional Advisory Committee.

RICHARD LAWSON - Chairman of the Disciplinary Appeals Panel
Formerly Chairman of SFA and of Greenwell Montagu.

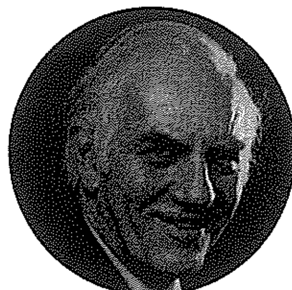


PADDY (LE) LINAKER
Deputy Chairman and Chief Executive of M & G Group Plc and Chairman of M & G Investment Management Limited.

MICHAEL MARKS
Chief Executive of Smith New Court since 1987 and a member of NASD's International Markets Advisory Board.

TIM NICHOLSON - Chief Executive
Formerly Head of SFA's Individual Registration and Qualifications Department and the Exchange's Exams Section. Regular Army (Duke of Wellington's Regiment) until 1987.

JACK WIGGLESWORTH - Chairman of the Recruitment Sub-Committee
Board member of LIFFE and member of SFA's Membership Committee.



PETER WILLS - Chairman of the Membership Committee – Director of Hambros Clearing Limited and former Deputy Chairman of the Exchange and of the SFA and Exchange's Membership Committees.

JOHN WOOLFENDEN - Chairman of the Disciplinary Panel
Until recently with UBS Phillips and Drew and now with BWD Rensburgh in Liverpool.

PROFESSIONAL EDUCATION COMMITTEE – 1

THE ROAD TO EXPERTISE

By Stephen P. Cooke

How can we claim that we are members of a profession, when study and passing tough, professional examinations is still the exception for our practitioners rather than the rule?

Any mention of exams is enough to make many experienced practitioners in the Securities Industry groan and thank their lucky stars that when they first entered the industry, no such examinations were required!

Amongst the first in the Securities Industry to initiate proper professional examinations was the Stock Exchange. These started in 1974 and passing the examinations became a requirement to obtaining Membership. As Partnerships were offered only to Members of the Stock Exchange, there was a great incentive for any aspiring candidate to submit themselves to the rigours of these examinations.

One notably disagreeable feature of Big Bang was that Directors of the new corporate entities were no longer required to be personal Members of the Stock Exchange and for many people this meant that there was no financial incentive to take the examinations. Whilst the SFA's introduction of competence testing was clearly a good step forward in requiring all practitioners to gain a basic knowledge before becoming a Registered person, in many organisations there was no requirement for any further training and in theory many practitioners were in a position to advise clients on complex matters with only the basic examination under their belts.

The key word is 'professionalism'. Whilst there can be no substitute for the practical training learnt on the job, financial markets are now so complex that client advisers as opposed to salesmen, should have a high level of training and, particularly, have insight into areas outside their immediate activities. The establishment of the Securities Institute now provides us with a golden opportunity to raise training standards in our Industry to a level considerably above basic competence.

After all, when consulting a lawyer, one expects him to have been subjected to all of the extensive training required by the Law Society and, similarly, when seeking advice from an accountant, one is re-assured that one is speaking to someone who has satisfied the examiners at a high level. I firmly believe that we should expect the same of those who are to be trained in our industry.

It would be my hope that all companies will expect and encourage their employees to achieve a level equivalent to that required to become a Member of the Securities Institute before they were responsible for managing a client's portfolio or giving investment advice. In this way we could firmly claim to be a 'profession'.

In addition to the Securities Institute Examinations (the passing of which will lead to full membership of the Institute), the programme being put forward by the Professional Education Committee will also include continuation training to give members the opportunity to understand areas outside their own expertise.

For instance, I am sure that many who have been used to giving investment advice would like to have further knowledge of derivative instruments and, similarly, those who have specialised in derivatives, would like to understand the intricacies of investment management much better. The Institute has a key role to play in this area.

The 'grandfathering' arrangements offered by the Institute in its first year will be the last opportunity to obtain membership without the passing of our high level examinations. At some point in the future, after many years, membership will be made up of only those who have passed examinations and it is my strong hope that anyone involved in giving professional advice to members of the public will only be done by members of the Securities Institute. ■

> ‘The establishment of the Securities Institute now provides us with a golden opportunity to raise training standards in our Industry to a level considerably above basic competence.’

TRAINING AND EXAMINATIONS

Training and qualifications are central to the Institute's role as a professional body. The Institute inherited a well-established range of qualifications and is currently developing a much broader education programme incorporating several new initiatives.

Within the Financial Services Industry, training is now a particularly prominent subject. The Institute's Professional Education Committee, chaired by Stephen Cooke of Gerrard Vivian Gray, has recently issued a draft of its training and qualifications plans, and this is now being considered by regulatory authorities, industry bodies and practitioners. Following this consultation process a 'prospectus' will be published and widely circulated.

Meantime, the training and qualifications opportunities that are now on offer are considerable. The aim is to provide relevant, practitioner-oriented qualifications on a broad range of subjects at several levels. This highest level is the...

Securities Institute Examinations & Diploma (SIE)

The Securities Institute Examinations are professional-level qualifications establishing a recognised and acknowledged industry standard. Formerly the Securities Industry Examinations of the London Stock Exchange, they also underpin Institute Membership passes in three subjects achieving the SIE Diploma and providing eligibility for Full or Associate Membership.

The wide range of subjects reflects the scope of the Institute's Membership base:

- Regulation and Compliance
- Interpretation of Financial Statements
- Investment Analysis
- Private Client Investment Advice and Management
- Institutional Investment Advice
- Financial Futures and Options
- Bond and Fixed Interest Markets
- Fund Management
- Corporate Finance

A commodity futures and options paper is under consideration and anyone wishing to assist the working party should contact the Professional Education Department.

All SIE papers demand high levels of performance and practical ability. Panels of senior practitioners oversee the development of each examination and assist the task of setting appropriate pass, credit and distinction levels. Most candidates take two years to complete the Diploma, although experienced practitioners may be able to achieve it in less time.

Student Membership

A separate category of Institute Membership has been created for SIE candidates offering:–

- SIE Seminars
- Newsletter
- Library/Study facilities
- Securities and Investments Review

The annual subscription fee is waived for those committed to at least one SIE each year and so for a presently modest £25 joining fee, a growing range of services and facilities are available.

SFA Registered Persons Examinations (RPE)

The Institute continues to deliver these examinations, although SFA retains complete policy control of these competence tests and of registration. Examinations are offered daily (on computer) in London and at regular intervals through a network of regional centres. The three most needed RPE are Securities Representative, Futures and Options Representative, and Corporate Finance Representative.

Investment Administration Qualifications

The 'back office' has long required a recognised and effective qualifications and training package. This need was recognised by SFA's Qualifications Department - now transferred to the Institute - and the programme has gradually expanded in co-operation with others, such as the Stock Exchange.

Existing 'modules' include:

- Foundation Certificate
- Basics of Talisman
- Basics of Taurus 1
- Basics of Taurus 2
- Derivatives Back Office Course

The range will be considerably increased and incorporated within a wide ranging 'Foundation Programme'. Additions presently under development include:

- The Regulatory Environment
- Introduction to Futures and Options

The Regulatory Environment will be based on the common Section 1 of SFA's Securities and Futures and Options examination and a pass will be transferable to the appropriate SFA Registered Persons examinations (valid for a period of two years).

Introduction of Futures and Options will, like many modules, be of interest not only to junior staff requiring basic skills or a wider perspective, but also to more experienced practitioners interested in gaining a general understanding of a new area.

Opportunities

In many ways, training and qualifications in the financial services industry stands at a crossroads. IMRO, LAUTRO and FIMBRA have recently produced new training proposals, SIB established its Training and Competence Panel last month, and new regulatory structures are on the horizon.

The Institute considers that the industry would greatly benefit from a broad structure, spanning regulatory boundaries.

Undoubtedly Continuation Training of the type adopted by the Law Society and the Accountancy profession will form part of this programme. Members will particularly be interested in the proposed programme of Members' seminars due to commence in the autumn. Any suggestions of suitable speakers and subjects should be received by the Professional Education Department as soon as possible.

Many opportunities exist for the Institute in the training and qualifications area and the Institute aims to contribute effectively and constructively to industry developments. It can only do so through practitioner involvement. The person with the responsibility for getting a job done is the one to say what training standards should be set. The Institute, with its thousands of member practitioners, is well placed to make a significant contribution. ■

THE PROFESSIONAL EDUCATION COMMITTEE

Stephen Cooke (Gerrard Vivian Gray) – Chairman
Geoffrey Turner (SFA)
Anthony Belchambers (JEC)
Brian Larkman (National Westminster Bank)
Prof Charles Goodhart (London School of Economics)
Tim Nicholson (Securities Institute)
David Jackman (Securities Institute)

For further information on the work of the Professional Education Department, please contact David Jackman on 071-628 4896.

SECURITIES INSTITUTE EXAMINATIONS

July 1992 Timetable

Day	Time	Subject
Monday July 6	10am	Interpretation of Financial Statements
	2pm	Regulation and Compliance
Tuesday July 7	10am	Private Client Investment Advice and Management
	2pm	Investment Analysis
Wednesday July 8	10am	Fund Management
	2pm	Institutional Investment Advice
Thursday July 9	10am	Financial Futures and Options
	2pm	Bond and Fixed Interest Markets
Friday July 10	10am	Corporate Finance

SECURITIES INSTITUTE EXAMINATIONS

FUND MANAGEMENT CHIEF EXAMINER

Required to assist in the preparation of the December 1992 paper, assuming full responsibility in 1993.

This position will be of interest to experienced practitioners in the fund management area.

Two papers are produced each year and remuneration is in line with similar appointments.

For further details contact:
David Jackman on 071-628 4896

DEAR MARJE

Q. It's my Damien. I thought things were going to be so nice when he said he'd got this new job up town. But it all seems to have gone tragically wrong! When I asked him what the job was all about, he said it was with a security firm, so I thought how lovely he would look in his uniform and how I wouldn't mind if he brought the alsations home at the weekend. How wrong can a girl be! It turns out he'll be flogging shares (what's secure about them? I said). What a letdown, just when I thought he was getting a steady job after three years on the YTS.

Anyway, I wouldn't mind all that, but he's changed so. It's the books. They've told him he's got to pass an exam before he can even talk to anyone. He seems to be taking it literally. 'You are allowed to talk to me, you know, Damien,' I said. I asked him the other night as he sat there hunched over his 'manual' as he calls it (I think he's just being spiteful calling it that, just because I got chatted up by a bloke called Manual when we went to Torremolinos) anyway I said, 'What are you studying, Damien?' and without looking up he said: 'S.f.a.' 'Well', I said, 'it's taking you long enough to study nothing', I said. I told my friend Sharon and she said she'd have slapped Terry's face if he'd spoken to her like that.

He seems so troubled by it all. I'm not surprised, him with his two G.C.S.E.'s in Country Dancing and Acupuncture.

'What's troubling you, my love?' I said. 'Life', he said. I looked over his shoulder and he'd written there on his notepad: 'LIFFE', it said in his big childish scribble. Poor love, I thought, him worried about life and not even able to spell it.

Mind you, I thought things were looking up the other night. As soon as my Mum had gone to Bingo, he was there by my side on the sofa, just like the old days. 'Tracy', he whispered, his eyes all dewy, 'will you do something special for me?' 'Oh Damien', I said. 'Good', he said 'test me on this formula, willya?'

Oh Marje, what shall I do? Is it all over with me and Damien?

A. Stop snivelling, stupid girl! - er - I mean - come now, dry your eyes; you shall go to the ball! Your man is really being quite clever, you know. Although he seems like a frog now, as soon as he's passed his exam he will be back in your arms, practically indistinguishable from Prince Charming. Support him through his time of need and he will bring you riches beyond the dreams of avarice.

Of course if he does make a pig's ear of the exam, don't despair. Just get him to introduce you to one of his colleagues. One who has passed the exam.

Stephen Sanders is a compliance officer with a leading merchant bank.

FACT.

The Stock Exchange has abolished individual membership.

FACT.

The new professional body for individual practitioners in the securities industry as a whole is the Securities Institute.

FACT.

In the first few months of the Institute's life, there have been over 3,000 membership applications. Many more will be coming in from former members as well as new applications from practitioners in fund management, the derivative markets, corporate finance, compliance and administration.

FACT.

THE ONLY GUARANTEED WAY TO REACH THE INSTITUTE'S MEMBERS WHO COMPRISE THE HEART OF BRITAIN'S SECURITIES INDUSTRY, IS THROUGH:

SECURITIES
& INVESTMENT REVIEW

Please contact James Valentine, Alex Murray or Verity Loudon on 071-491 2499 or 071-409 1382

MEMBERSHIP COMMITTEE

APPLICATIONS AND ENTRIES

Introduction

Not surprisingly the main work of the Membership Committee and its support staff over the past few months has been to process the thousands of membership applications received since the Institute's launch on March 2. By the time this Journal is published more than 3,000 former Stock Exchange members will have applied for and been admitted to membership of the Securities Institute during this time. In addition to the strong support for the Institute demonstrated by the Exchange community, an encouraging number of applications have been received from other groups including Fund Management, Derivatives (Financial and Commodities), Compliance and Markets administration. Total applications and admissions as at June 10 are:

	Applications	*Admissions*
Members	3,211	2,800
Associates	40	0
Students	207	206

Sixty-three per cent of applications have been received from persons based in London with 37% from those outside London.

Admission Process

The admission process for former Stock Exchange members has been somewhat quicker than for those applying from elsewhere. The Institute decided at the outset that provided the former were able to confirm that they were not subject to investigation, currently or in the past, the granting of Institute membership would be automatic. Even so the task of processing large numbers of forms, each one individually acknowledged, employment details up-dated where necessary by telephoning the applicant, names vetted by the Membership Committee, details recorded on the Institute's database and the applicant notified, has demanded a concentrated effort to keep the backlog down to a minimum.

For those applying from elsewhere the process has taken longer as more checks are made to verify the details provided on the more comprehensive application form, and applicants are also required to be interviewed. Now that the transfers from the Exchange have very largely been accomplished, more resources can be devoted to those other applications.

Responses to Questionnaires

Once admitted all new members are sent a voluntary questionnaire which asks for information on the nature of their business, what assistance (if any) the member is willing to offer to Institute activities and, more importantly, what the member is looking for from the Institute itself.

Hundreds of questionnaires have been returned and members' aspirations for the Institute can be summarised as:-

- Recognition and status for members within the Industry
- Recognition of the Institute as a respected professional body
- Recognition of the Institute's Qualifications throughout the Investment industry.

The Institute facilities which found most favour with members are:-

- Members' Room and meeting facilities at the Institute's premises.
- Professional Journal
- Annual Conference

Regarding the nature of members' businesses the early indications from the questionnaires received to date are showing the following spread of activities:-

Activity	%
Private Client Stockbroking	39
Institutional Stockbroking	15
Fund Management	11
Derivatives	7
Compliance/Regulation	4
Operations/Settlement	3
Others	21

The questionnaires are providing a valuable source of information from members and we are very grateful to those who have taken the time to return them. Naturally we cannot correspond with all members individually about their interests, but are taking note of them, including the names of those who have offered assistance, and these offers will be taken up when needed.

Looking Forward

With much of the work concerned with the admitting of former SE members completed, the emphasis is now on recruiting members who qualify under the 'window of opportunity' category in order to widen the membership base. The Membership Committee has formed a Recruitment Panel to consider how best to achieve the target of 2,000 window of opportunity members by March 31, 1993, the date on which the facility will be withdrawn. For those unfamiliar with the Institute's admission criteria a chart showing entry requirements is shown below.

Admission Criteria

Membership of the Institute is open to practitioners in stockbroking, Market Making, Investment Management, Corporate Finance, Financial and Commodity Futures and Options, Markets Administration and Technology, Regulation Compliance, Clearing and Settlement. Practitioners in related areas of investment business may be eligible but should enquire before submitting their application.

The Chart outlines the admission criteria for the different categories of membership within the Institute.

Qualification under the 'window of opportunity' criteria is only available until the end of March 1993. The 'window' has been created for practitioners of standing and experience to enable them to join the Institute. If you have any queries about this admission criteria, please contact the Membership Team on 071-628 2358.

More than 2,500 members have claimed entitlement to '(Dip)' after their MSI. Everyone of these claims have to be checked individually and only the most recent examinations are held on computerised database – the remaining records are on microfiche. We will notify everyone of the outcome of their claim as soon as we can, but please be patient; it is a very time-consuming job. ■

The Membership Committee

Peter Wills (Hambro Clearing Ltd) - Chairman

Ted Greey (Albert E Sharp)

Jack Wigglesworth (LIFFE) - Chairman of Recruitment Panel

Clare Gore Langton (Laurence Keen) - Chairman of Social Panel

David Gittings (SFA)

Tim Nicholson (Securities Institute)

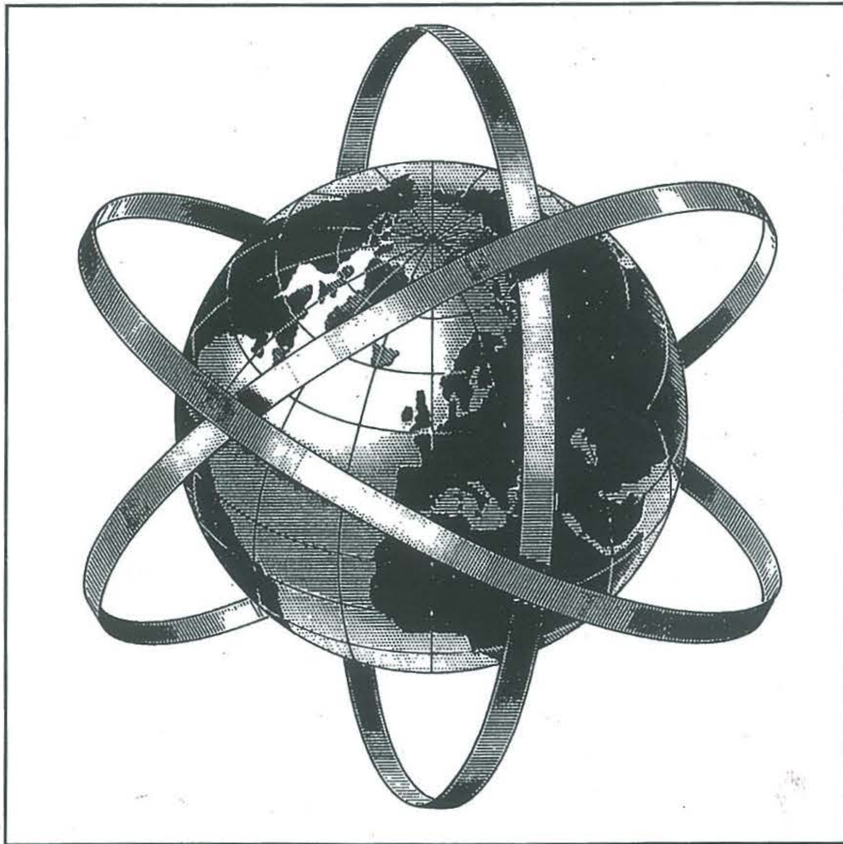
Bob Hall (Securities Institute)

MEMBERSHIP OF THE SECURITIES INSTITUTE ADMISSION CRITERIA

MEMBERSHIP CATEGORY	EXPERIENCE	QUALIFICATIONS
Full Membership	● 15 years	None required
	● 10 years	Recognised Qualification e.g. Chartered Accountant or one SIE Pass (or former Stock Exchange Exam Pass)
	● 3 years	Holder of three 1970-'86 Former Stock Exchange Exams
	3 years	SIE Diploma
Associate Membership	● 7 years	One SIE Pass (or former Stock Exchange Exam Pass)
	3 years	Recognised Qualification
	None Required	SIE Diploma

● = Window of Opportunity (Expires March 31, 1993)

INTEGRATED INVESTMENT BANKING WORLDWIDE



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Sydney □ Taipei □ Toronto □ Vancouver □ Wellington □ Zurich