



Annual Conference 2008

TISA

tax incentivised savings association

ANNUAL CONFERENCE

19 November 2008



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Welcome and
Introduction to
Conference Chairman

John Brasington
Chairman, TISA

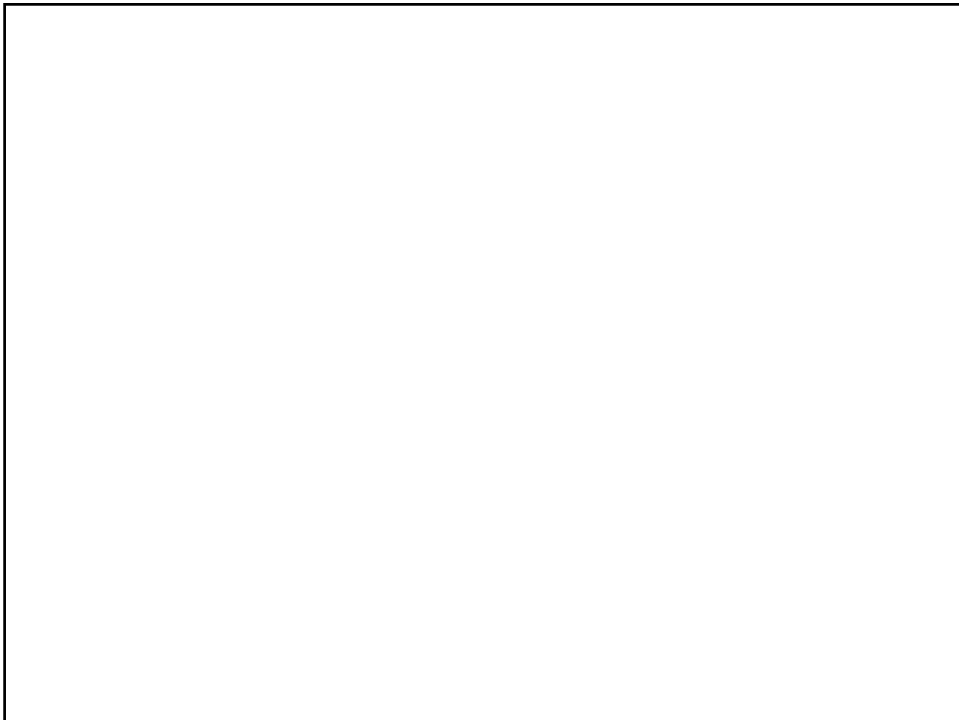
Introduction to the
Conference

Justin Urquhart Stewart
Marketing Director & Co-Founder,
Seven Investment Management



A Conservative View

Philip Hammond MP
Shadow Chief Secretary to the Treasury





Ministerial Address

Speech delivered on behalf of

Ian Pearson MP

Economic Secretary to the Treasury

by **Mike Williams**

Director of Budget, Tax & Welfare, HM Treasury

Text of speech follows on next page.



MINISTERIAL ADDRESS

Mike Williams (*on behalf of Ian Pearson MP, Economic Secretary to the Treasury*)

TISA Conference, November 19, 2008

It's a pleasure to be with you here today at the Plaisterers' Hall.

First, let me apologise that it's me speaking to you today, rather than Ian Pearson. I know the minister had been looking forward to coming here today, so it was with a great deal of regret that he asked me to fill in for him. I'm sure you'll appreciate that current events are making enormous demands on the minister's diary, which is stretched to bursting point even at the best of times. He asked me to pass on his sincere apologies to you all.

I promise that I will keep my remarks fairly brief. But I'd like to start by setting out my views on the current economic conditions.

I'm sure you will remember the outcry in the media at the end of August when the Chancellor said that economic times faced by Britain and the rest of the world were "arguably the worst for 60 years." Today, there are few that would disagree.

In fact, last month the International Monetary Fund said that: "the world economy is now entering a major downturn in the face of the most dangerous shock in mature financial markets since the 1930s". They also noted that the major advanced economies are already "in - or close to - recession".

We've already seen falling output in Germany, France, Italy, Japan, Canada, the US and Ireland. And we are now seeing falls in output here.

Many of the recent events in the banking system would have been unimaginable a year ago. Few would have predicted that each of the five large Wall Street investment banks would have, by now, either merged, sought government help or collapsed.

In Britain, the de-mutualised building societies are all gone – taken over, broken up or nationalised.

The Bank of England's Financial Stability Report, published at the end of October, estimated subprime and related losses at almost three trillion dollars.

The banking system lies at the heart of the UK economy. Businesses and families throughout the country rely on it every day.

So this isn't just about our financial institutions in the City and Canary Wharf. It's also about households and businesses across the country - pensioners worried about their savings, young couples seeking a mortgage to buy a home, owners of small firms struggling to get credit, and people worried about their jobs.



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The government has been doing – and will continue to do - everything possible to stabilise the financial system and restore confidence to the markets.

- The Treasury has invested £37 billion of public money in some of our high street banks to improve their capital positions
- Over £200 billion of Treasury bills have been made available through the Bank of England to provide liquidity to the banking sector
- And a credit guarantee scheme that underwrites up to £250 billion of newly issued bank debt has been set in place to revitalise inter-bank lending.

In total this represents a package of support worth around half a trillion pounds. This is intervention on a previously unimaginable scale, but the Government considers it necessary in view of the huge risks posed by a failing financial sector.

And the UK is not acting alone. The US government has taken on the mortgage assets of half the nation through the backing for Fannie Mae and Freddie Mac. The German Government has intervened with a 50 billion euro package to rescue Hypo Real Estate. The Irish Government has guaranteed every deposit in every one of its banks.

And because national economies around the world are now so closely connected, international co-operation is crucial.

The Prime Minister and the Chancellor are closely involved in the co-ordinated efforts of governments around the world to support the global economy through these very difficult times. Both attended last weekend's meeting in Washington of the G20 countries.

The economic downturn has, once again, driven home the importance of saving.

Savings and assets provide people with independence throughout their lives, security if things go wrong, and comfort in old age.

Since 1997, the Government's strategy has been to promote saving and asset ownership for all, throughout their lives – from childhood, through working life, and into retirement. This approach has been underpinned by the Principle of progressive universalism – providing support to all, with greatest support to those who need it the most.

Tax-advantaged Individual Saving Accounts (ISAs), introduced in 1999, have been successful in developing and extending the saving habit and ensuring a fairer distribution of tax relief.

Over 18m people, around one in every three adults, now have an ISA- more than twice the number who ever held a TESSA or PEP. The proportion of savers with an ISA among both lower-income groups and the young is also much higher. Almost 10% of ISAs are held by people aged under 25.

You'll all be aware of the changes made to the ISA regime recently. These changes, which became effective in April, are designed to deliver certainty, simplicity and flexibility for savers.



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The government worked closely with TISA and its members while devising and implementing these reforms to the ISA regime and I know that ministers are grateful for your very valuable input.

The ISA limits have been raised. Every adult now has an annual ISA investment allowance of £7,200. Up to £3,600 of that allowance can be saved in cash, with the remainder invested in stocks and shares.

And there is now greater flexibility for transferring money from cash ISAs to stocks and shares ISAs.

The Child Trust Fund aims to promote saving literally from the cradle.

I know that TISA and its members have been involved in simplifying the Child Trust Fund, both for savers and providers- and the government is grateful for your engagement in this area.

Ian Pearson announced a fortnight ago the latest statistics on the Child Trust Fund. They are encouraging. About 97 per cent of eligible parents are aware of the Child Trust Fund and around three quarters of parents continue to open accounts for their children within the first year.

The Child Trust Fund will ensure children have savings as they reach adulthood; it will help them get into the habit of saving; teach them about the benefits of saving; and help them understand personal finance more generally.

This is complemented by the investment the government has made in embedding financial education into the new secondary school curriculum. From this September, financial capability and economic wellbeing have been a dedicated strand of the curriculum in England. The Government has also allocated £11.5 million for "My Money", a programme to improve financial education in schools. Among other things, this will support teaching primary school children about their Child Trust Fund, linking with the Government contribution to the Child Trust Fund accounts of each 7 year old, which will start from next September.

The Government is committed to helping individuals meet their income aspirations and needs in retirement – by rewarding saving, providing support to all pensioners and by reforming the pension system to tackle both under-saving and inequalities present in the current system.

In its 2006 White Paper the Government outlined an integrated package of reforms for the long term building on the analysis and recommendations of the Pensions Commission.

The first part of this reform package was implemented in the Pensions Act 2007 to provide a simpler and more generous State Pension that addressed the historic inequalities in entitlement. It also provided for a gradual increase in State Pension Age to ensure the system is sustainable in the face of demographic change and to enable people to extend their working lives.

The current Pensions Bill builds on this Act through a set of reforms that will enable and encourage more people to build up a private pension income. For the first time employers



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will be required to automatically enrol employees into a pension and make mandatory contributions. A new scheme of simple, low-cost personal accounts will also be introduced for those without access to a good quality workplace pension scheme.

These reforms will ensure all individuals and in particular, low to moderate earners have both the opportunity and incentive to save - resulting in between six to nine million people newly participating or saving more in pensions - transforming the savings culture in the UK.

The Government also encourages workplace-based saving through tax advantaged employee share schemes such as Save As You Earn and the Share Incentive Plan.

These two schemes, introduced in 1980 and 2000 respectively, aim to help employers better align the interests of employees with those of the business, and, by doing so, to raise productivity. The scheme also promotes saving and greater employee share ownership.

Today HMRC is publishing on its website the results of a survey of these schemes.

Both employers and employees were positive about the effects of the two schemes on employee relations, company performance, productivity, and savings behaviour. In particular, half of the scheme providers surveyed felt that the schemes had contributed to improved performance of the company. The most common reason given by participants for taking part in the schemes was that they were seen as an "easy way to save". Almost four-fifths of the employees participating in SIP and SAYE said their involvement had increased the amount they saved overall.

Another key component of the Government strategy to improve financial inclusion and capability is the Saving Gateway. This is a new cash saving scheme to promote saving and financial inclusion for those on lower incomes, which will provide a financial incentive to save through a Government contribution for each pound put into the scheme by account holders, up to a monthly limit.

The scheme has been piloted twice, with positive results, incentivising both new savers and new saving. The scheme is set to be rolled out nationally, with the first accounts available in 2010.

Of course, all of the government's schemes to encourage saving are no use if people don't know about them.

In difficult times such as those we are experiencing now, improving financial awareness, understanding and confidence is more important than ever. Our task is to ensure that people have the support and guidance they need to make informed financial decisions so they can make adequate provision for themselves and their families.

Earlier this year Otto Thoresen's report set out a vision for an impartial, easy-to-access Money Guidance service, offering advice that is tailored to individuals' needs and that will never try to sell them anything.

And, together with the FSA, the government is now working to make this vision a reality. A £12 million pilot or "pathfinder" for the new service will be launched in the North West and



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North East regions of England early next year. It will provide valuable insights on how the service could be rolled out nationally.

And in the meantime, the government and the FSA last month launched a major awareness campaign to promote the FSA's "Money Made Clear" website and consumer helpline. You may have seen the campaign in the press, heard the radio adverts, or spotted our advertising in supermarkets, and on petrol pumps.

TISA is a valuable partner for the government. I know that both ministers and Treasury official are grateful for the advice and technical expertise that you offer.

For government, the tasks ahead are to:

- foster the right conditions for saving to flourish
- create the right incentives to encourage saving
- empower people with the right guidance and support to make the right choices for themselves.

I hope very much that you will continue to play your part in meeting these challenges.

Thank you.



The UK Economy : Crunch Time

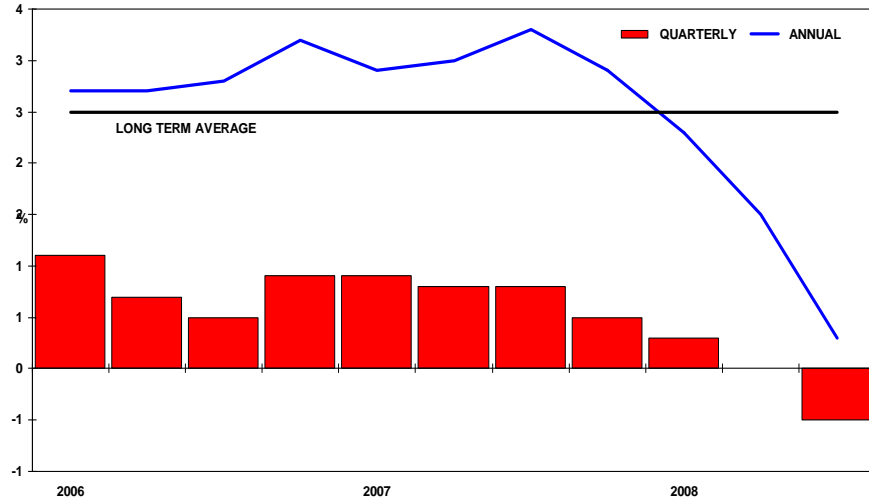
Dennis Turner
HSBC Bank plc



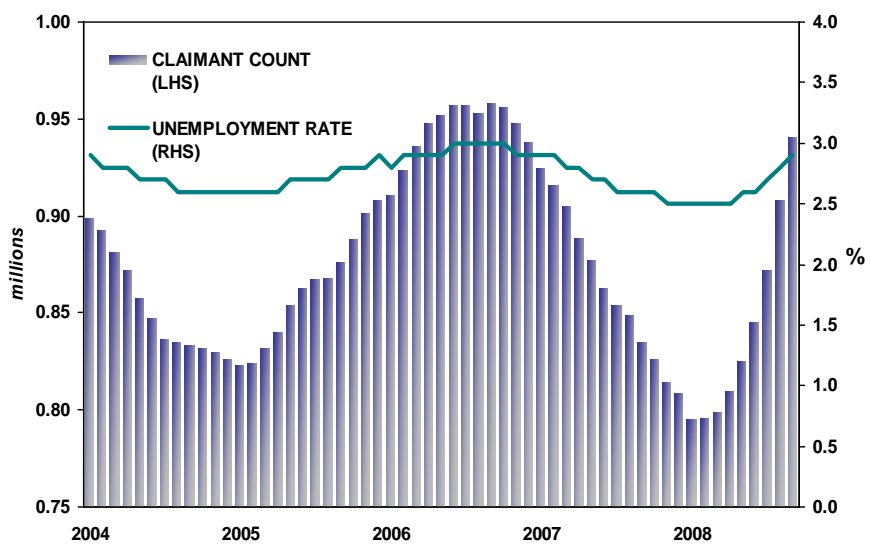
PANIC OR PRE-EMPTIVE STRIKE?



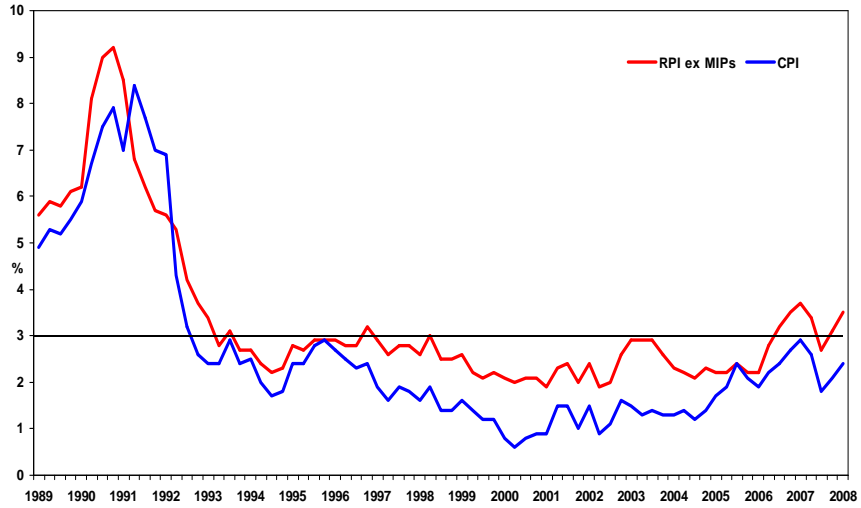
First quarter of negative growth for 16 years



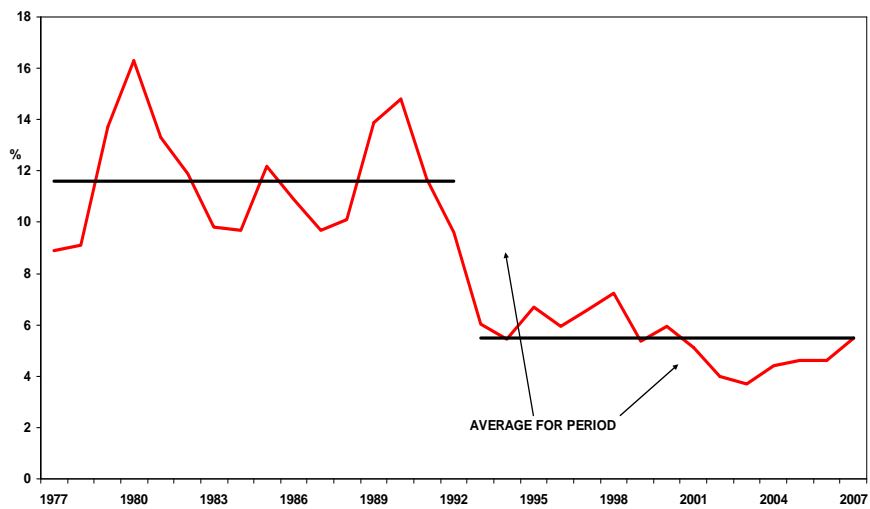
The labour market is turning

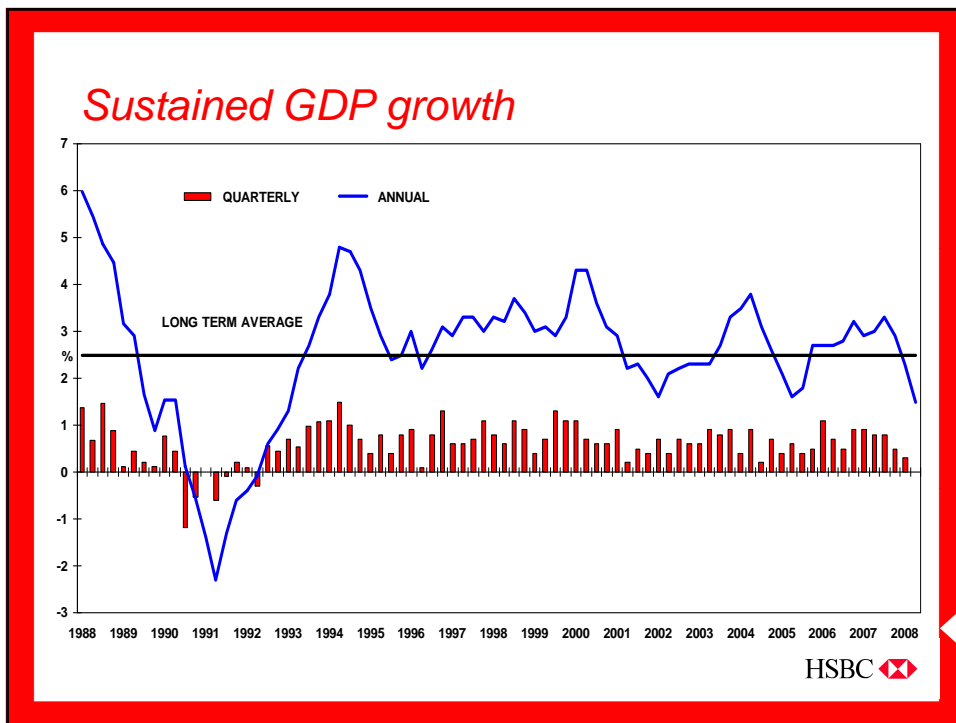
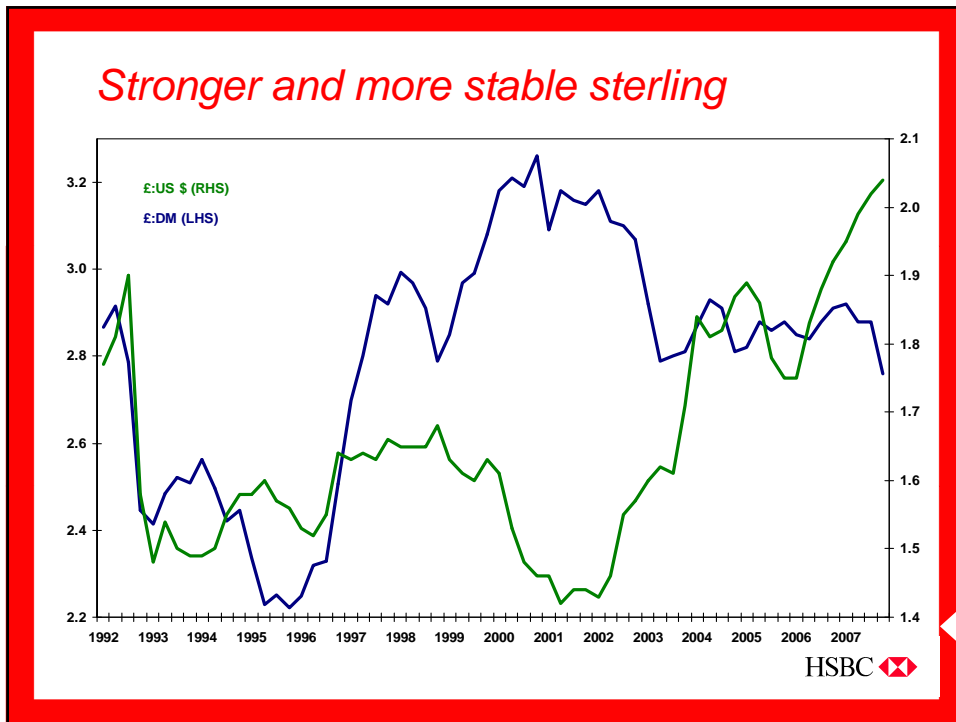


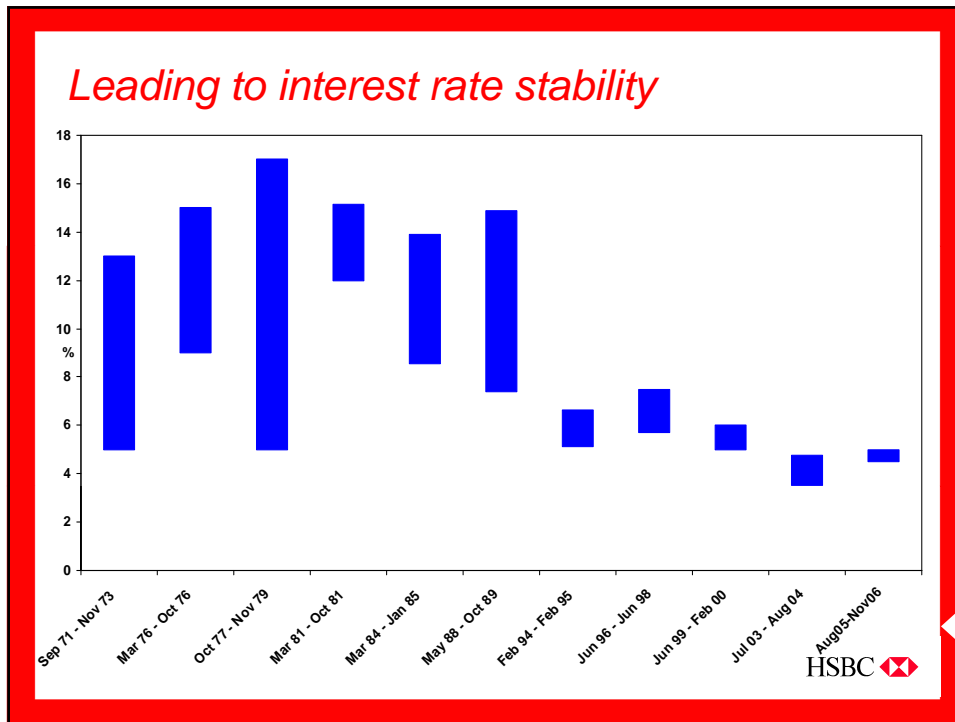
Sustained low inflation



Historically low interest rates



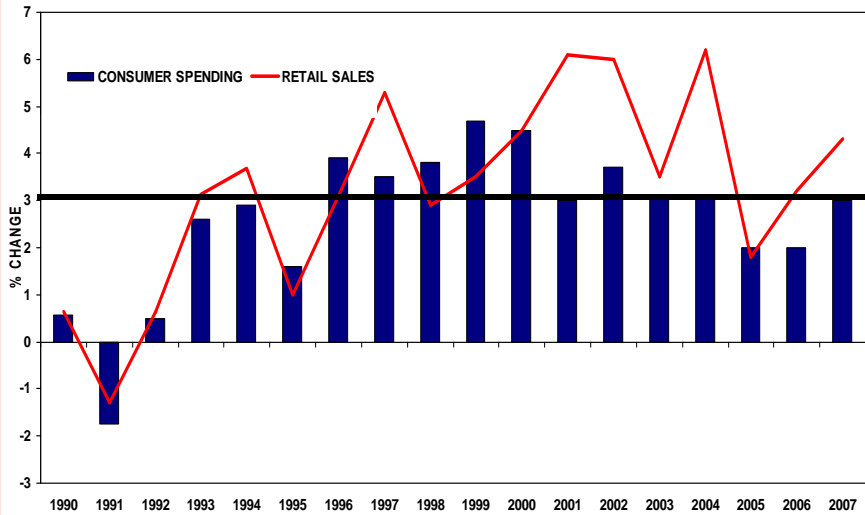




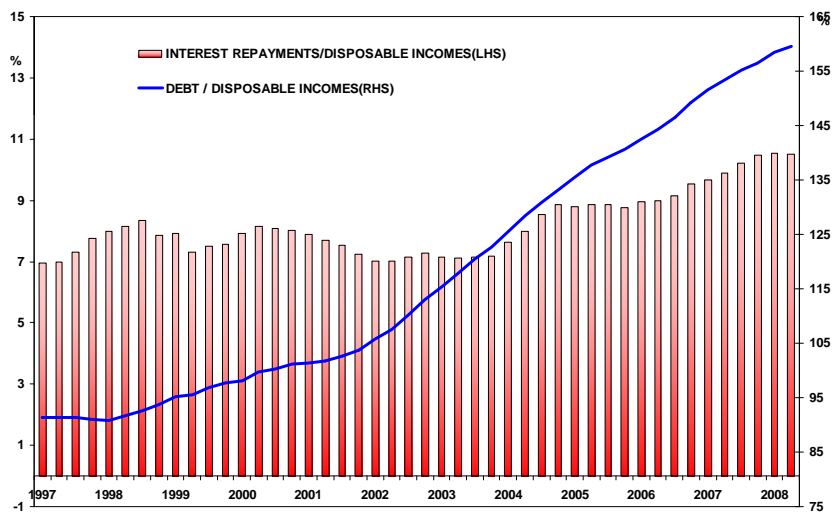
BUT THE WRONG SORT OF GROWTH

HSBC 

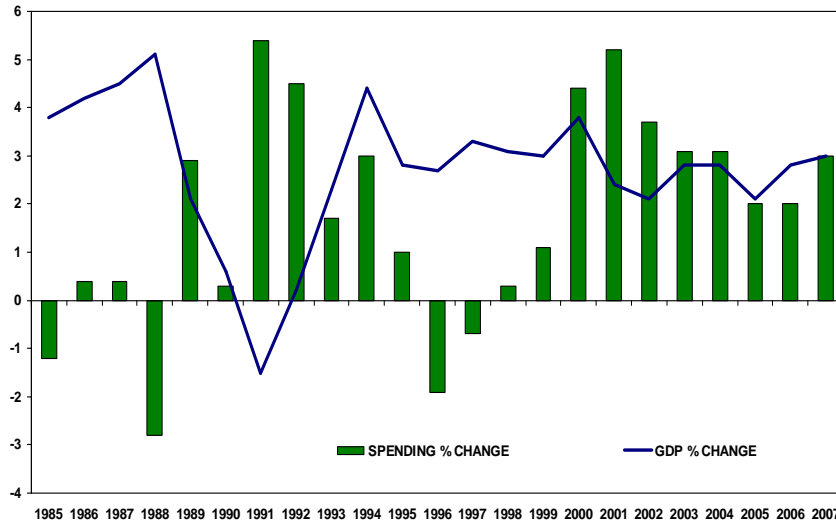
Consumers the driving force



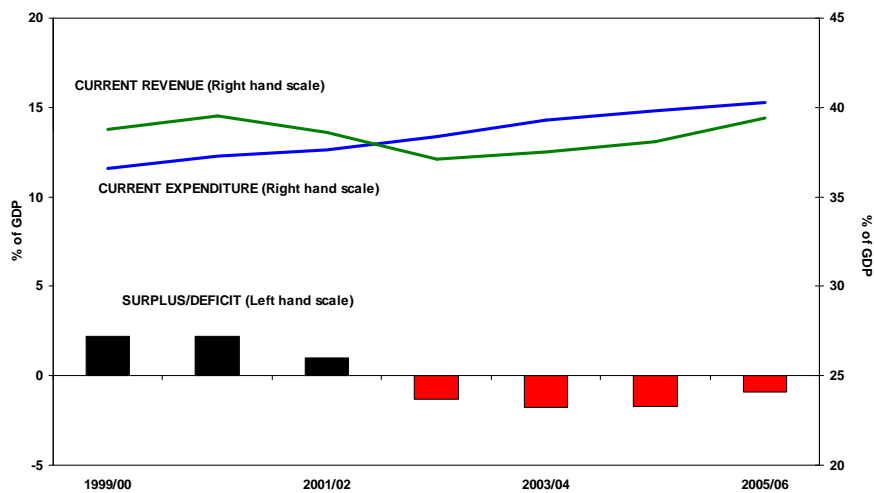
But underpinned by borrowing



The public sector is making a comeback



But government finances getting weaker





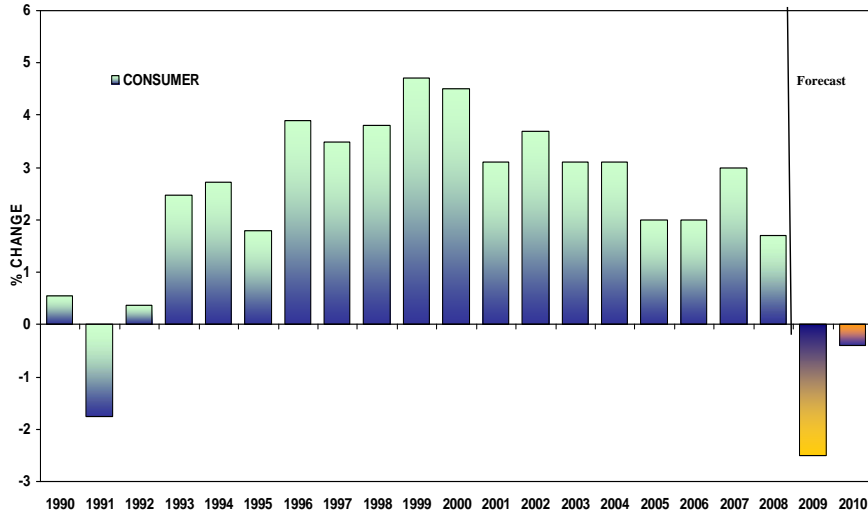
WHERE TO FROM HERE?

HSBC 

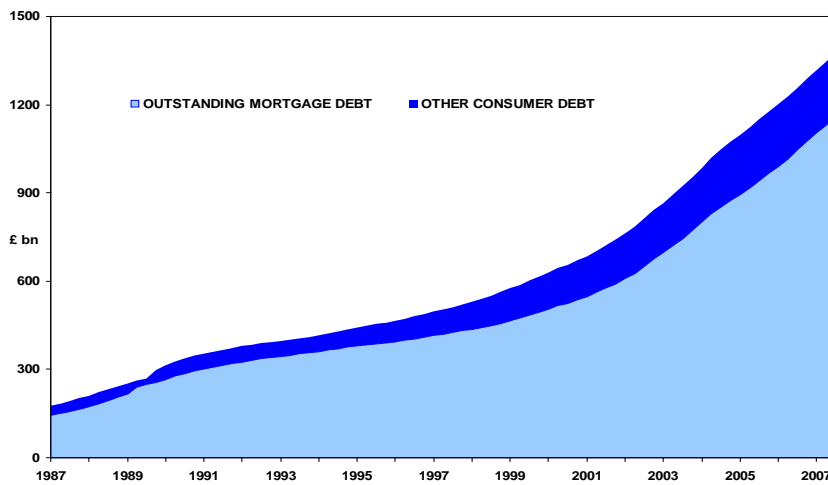
Consumers under pressure

HSBC 

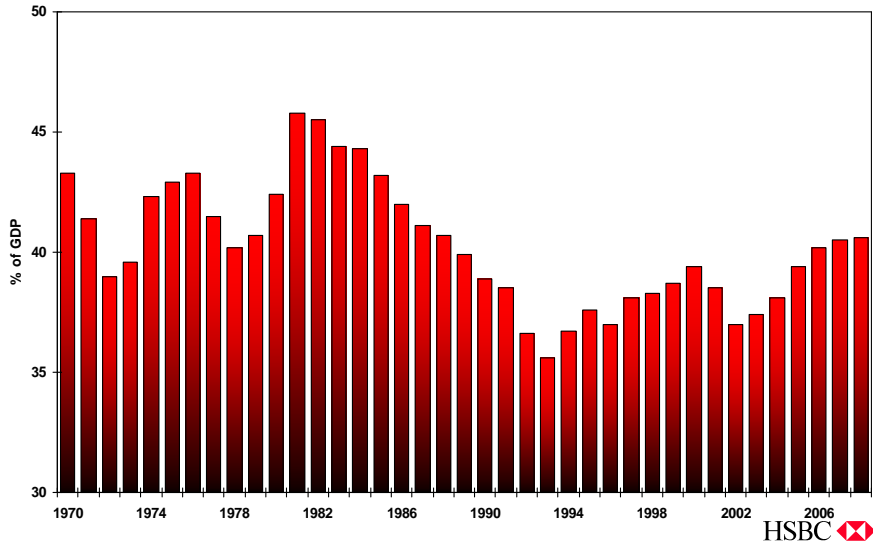
A spending squeeze underway, because....



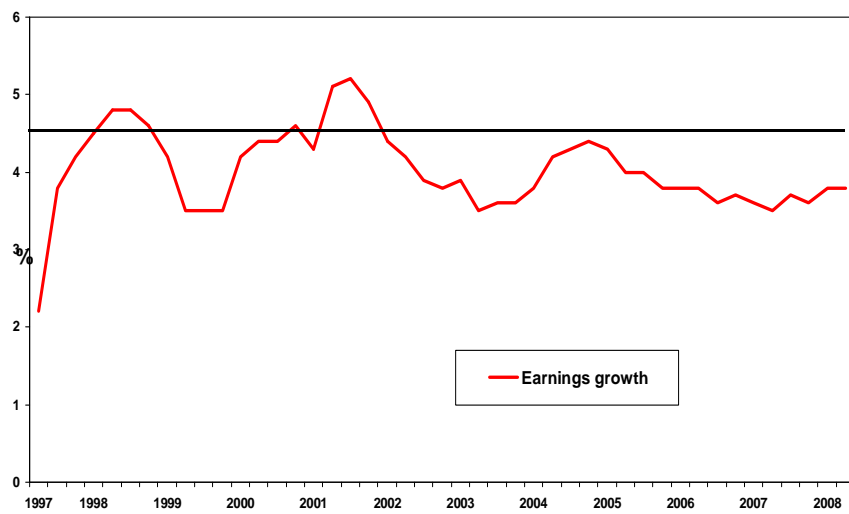
record levels of personal debt,



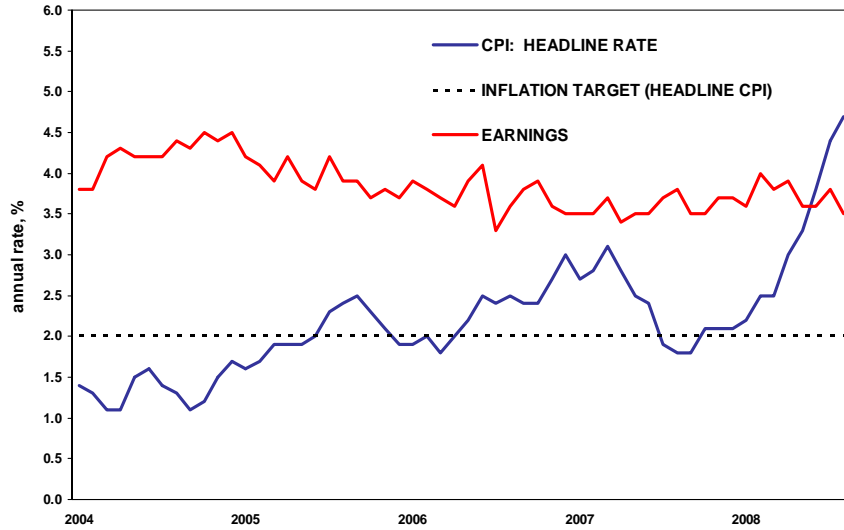
the tax burden is rising and



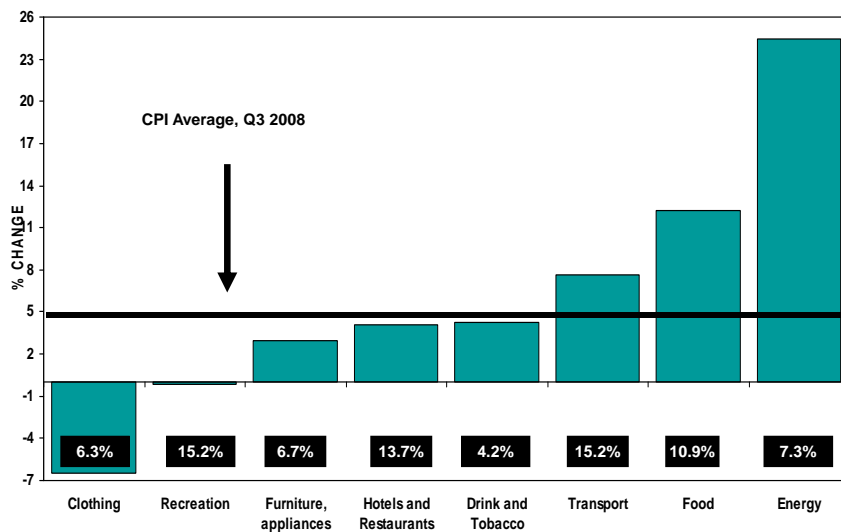
subdued earnings growth.



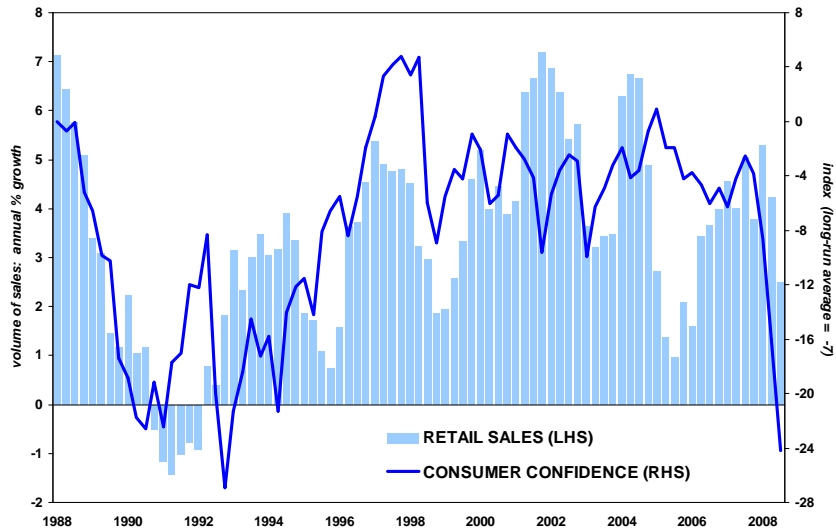
Inflation rising faster than incomes



CPI inflation very concentrated

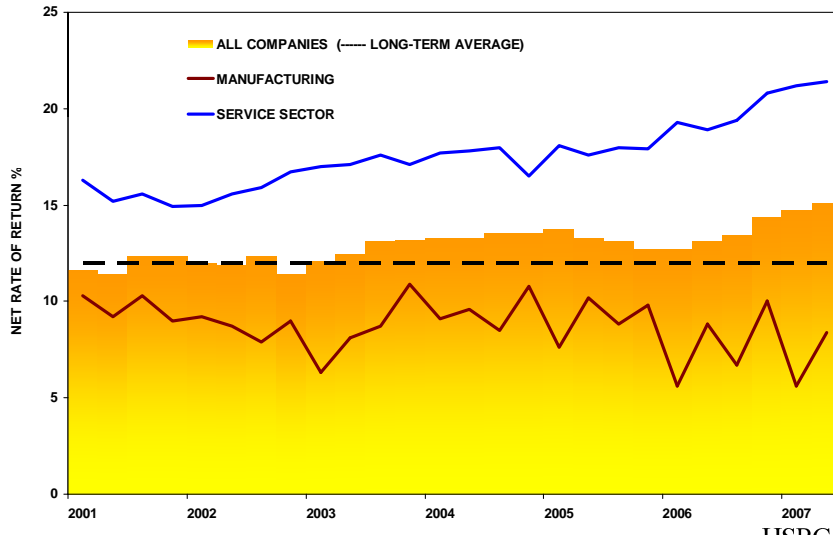


Confidence and spending in retreat

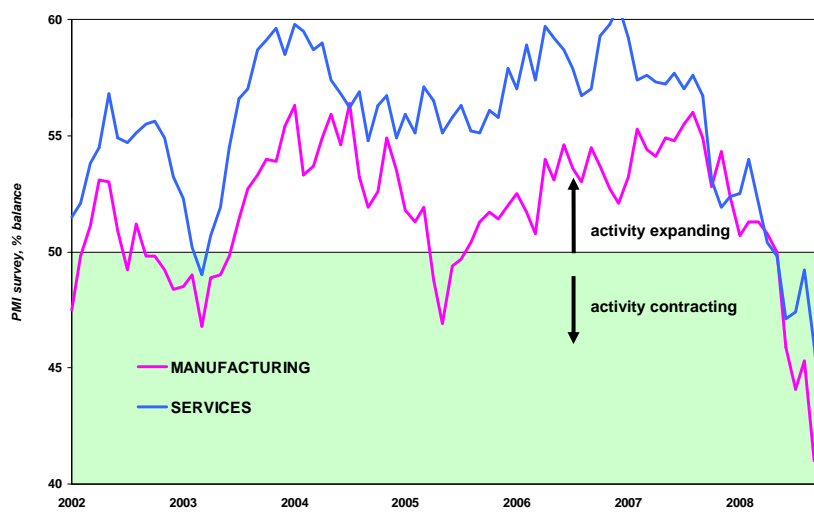


An investment-led recovery?

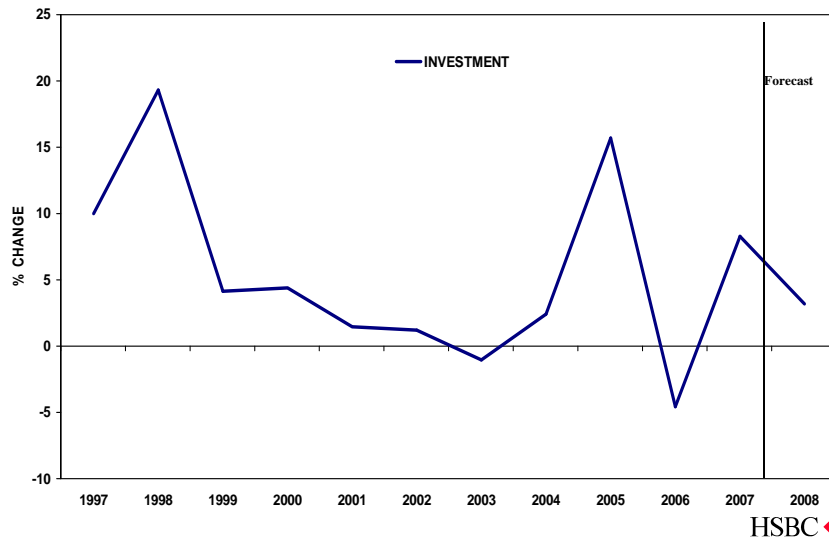
Robust corporate profitability



Business surveys – heading south

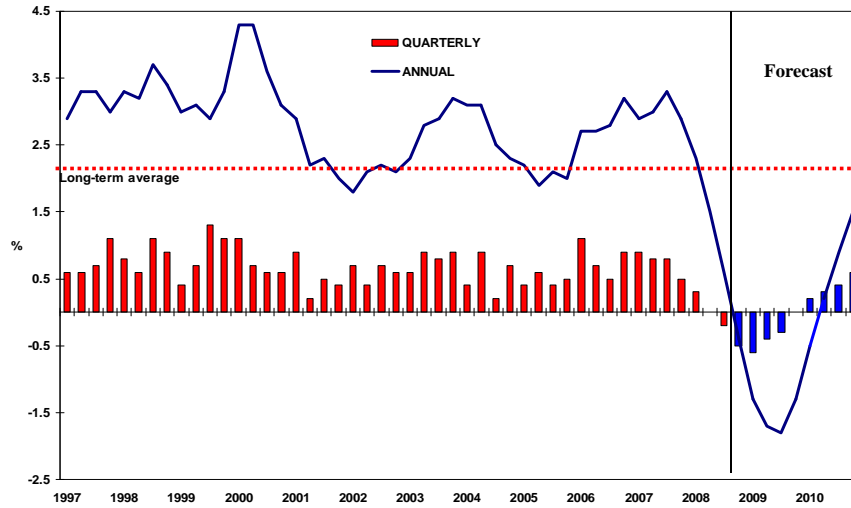


A sluggish investment outlook



GROWTH IS WEAKENING

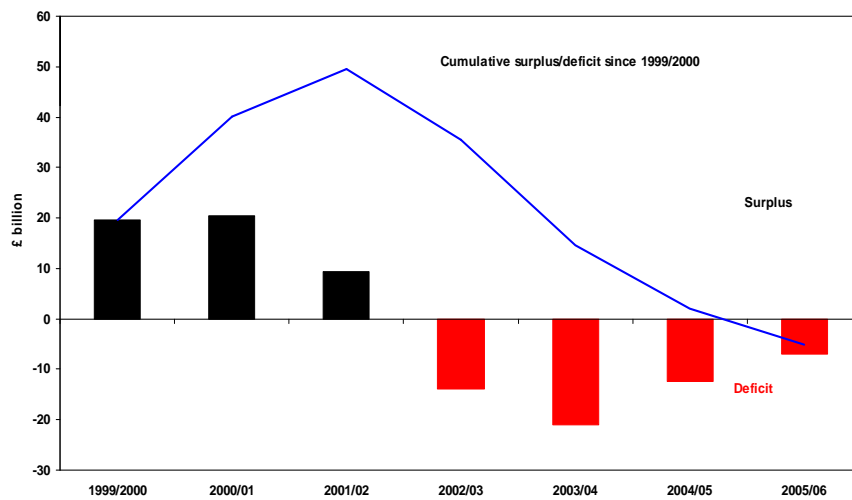
Growth to go negative



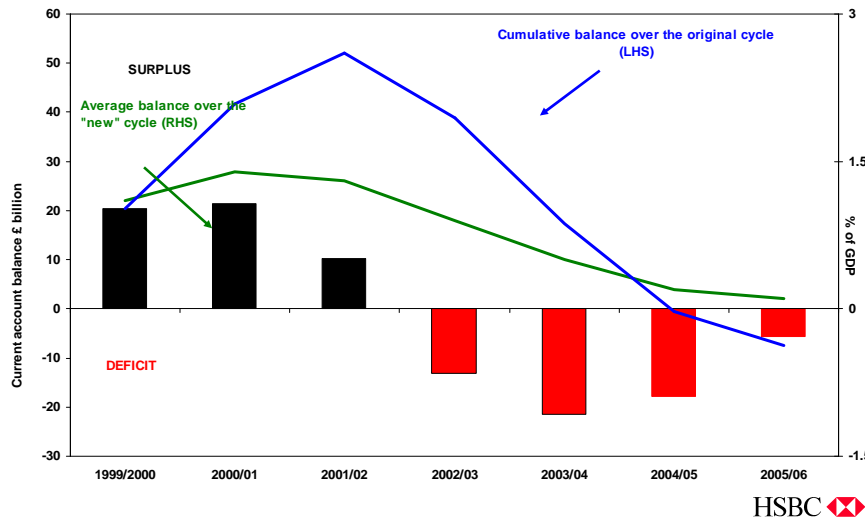
A STIMULUS IS NEEDED

The Fiscal Rules no longer apply

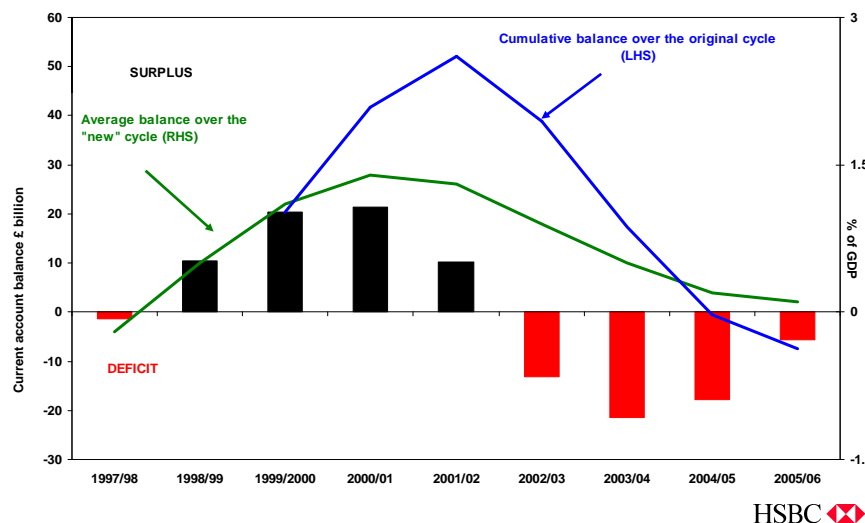
Breaching the Golden Rule?

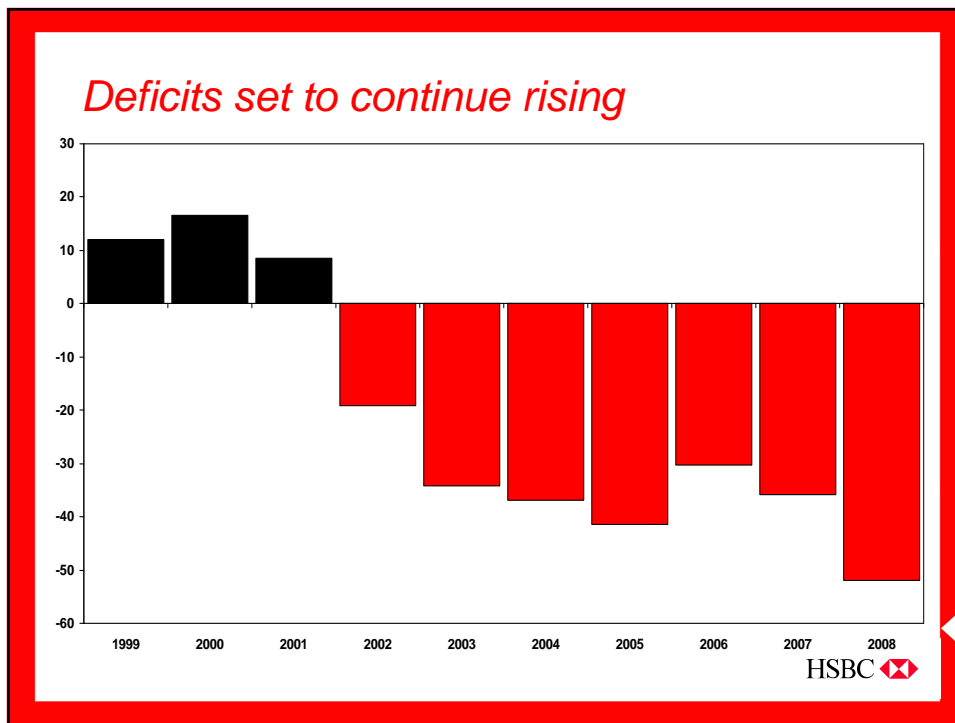
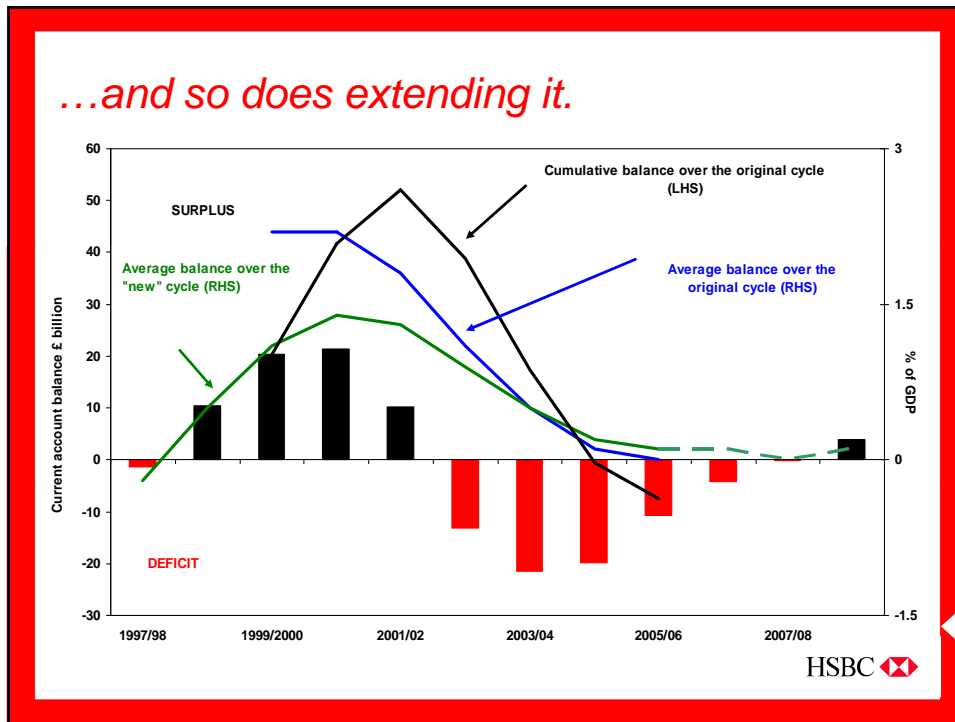


Not with a little massaging

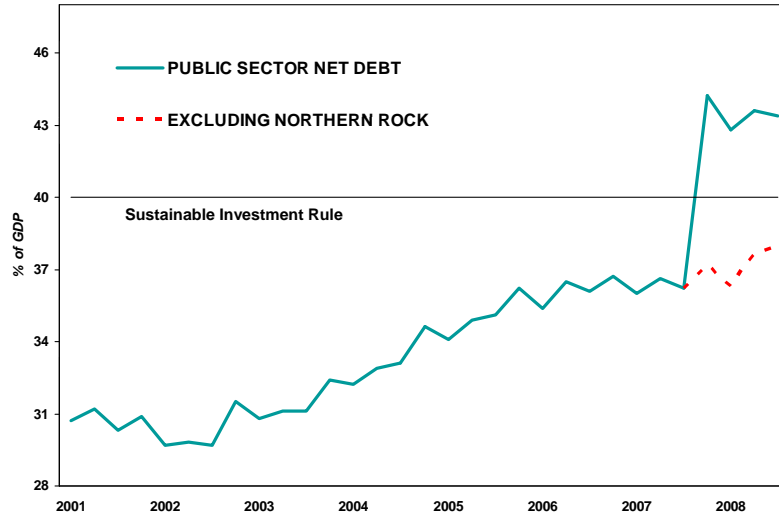


Backdating the cycle helps...



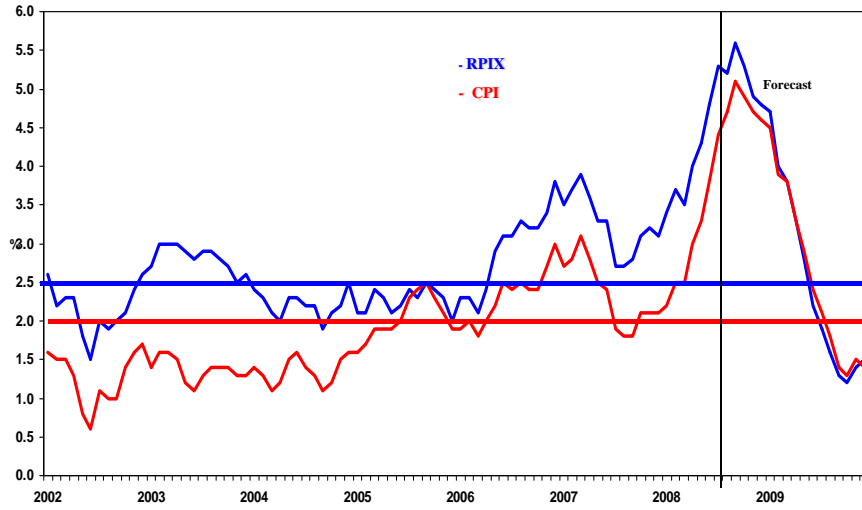


Investment rule no longer sustainable

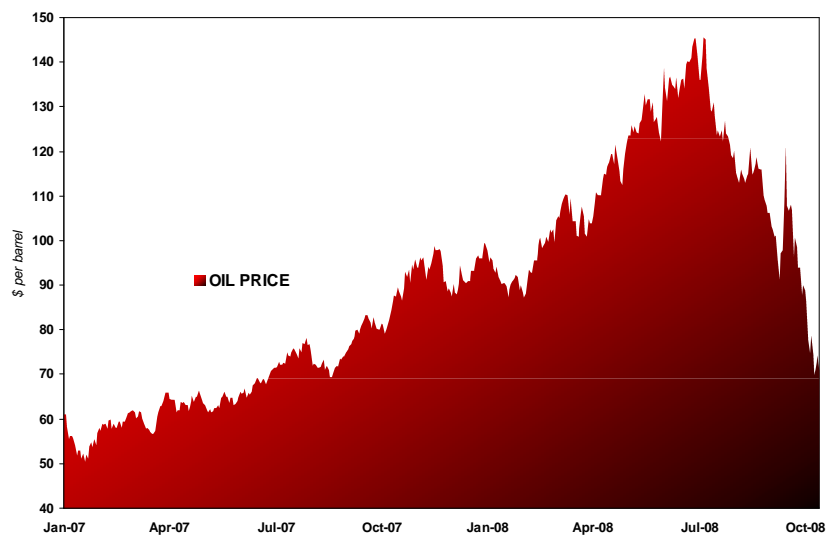


Interest rates to fall

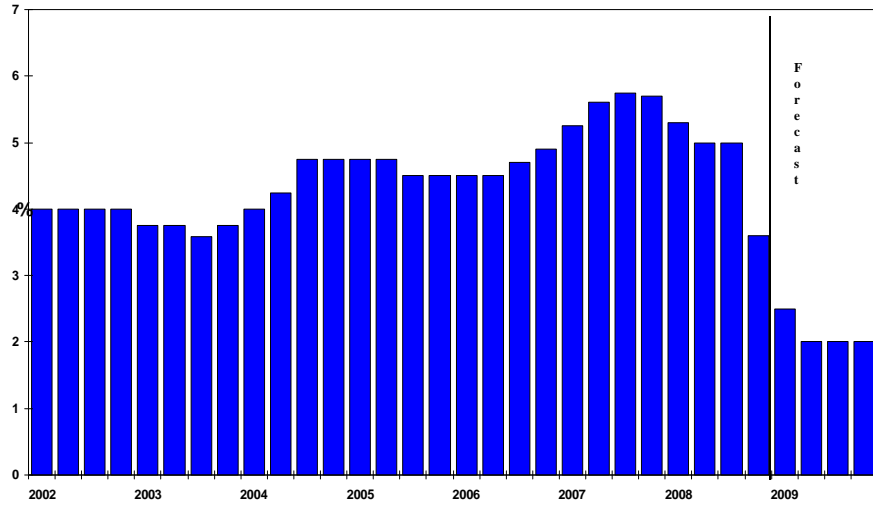
Price pressures like to ease



Oil prices lead inflation down



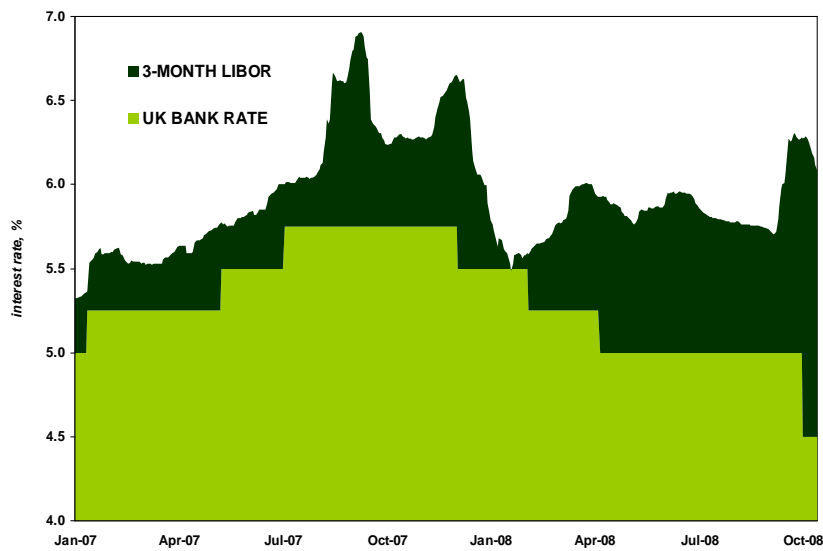
...creating room for more interest rate cuts



BUT.....

Credit supply a drag on activity

The turmoil in financial markets a major risk





SARS THE BIG RISK

***S*EVERE**

***A*CUITE**

***R*ECSSIONARY**

***S*YNDROME**



Is the Savings Cycle Broken?

Cliff van Tonder

Head of Business Development,
BNP Paribas Securities Services

Slides are not available at this time.

Please check again later



Gleneagles – a turning point

Hal Austin

Editor, Financial Adviser

Text of speech follows on next page.



GLENEAGLES – A TURNING POINT

Hal Austin,

TISA Conference, November 19, 2008

Thank you Justin, Tony, ladies and gentlemen.

When I was first invited to speak to you today, I was not sure if Tony Vine-Lott and his colleagues just needed a contrarian – in the sense of going against the grain.

We are living in turbulent times, in history making times, times that some of us who have been around for a few winters cannot recall ever experiencing.

But there are also interesting times. However, no matter how hysterical the background noise, no matter how vehement the blame and counter-blame, I do not believe that we are on the precipice of disaster or, even the collapse of capitalism.

I believe that we are going through a correction, even if a stormy and rather bouncy one, but a correction nevertheless. And we will emerge from it stronger and in a better place as a society, even if there are a few unfortunate casualties along the way.

So, to be discussing next week's great event – the Retail Distribution Review – a great event at least for those of us who make a living out of retail finance, is like partying at a wake for a loved one.

When Sir Callum McCarthy made his now famous or infamous Gleneagles speech, reprimanding the IFA sector for having dysfunctional business models, which were unworkable and focused too much on commission-driven remuneration, he opened a can of worms.

We now know, of course, that it was not so much IFAs that had an unworkable business model, but the banks – all of them.

Let me remind you of the key points of that historic speech made in September 2006. Sir Callum began his speech by giving a description of a business model based on the transportation of criminals to Australia, in which shippers were paid according to the number of convicts shipped out – even though a number died enroute.

He said the system was then changed to a model based on the number of convicts who actually arrived in the colony. The new reward structure, he said, produced immediate change.

The other example he gave was that of the deregulation of gas and electricity which, in its early days, was based on door to door salespeople attempting to persuade homeowners to change to the provider of choice.

This system, he said, led to widespread abuse with any number of forged signatures and so on. That system too was eventually changed to one of payment on confirmation by the homeowner.



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No one is saying, least of all me, that the IFA sector is a sector of angels. What I do find objectionable, and said so at the time, was the comparison of IFAs with the shipment of convicts to the other side of the world in the most horrible of circumstances; and the cowboy operations used by many energy providers then – and in many cases even now – to sign up new customers.

However, it was the emphasis on incentives – the notion that incentives are the alpha and beta – which has driven the debate since then.

But I want to make a case for the IFA sector and, in the main, its own desire to become a much better organised and professional network, even without smears from senior regulators or the self-righteousness of some chief executives who imagine themselves to be purer than pure.

First, it is easy to bash the FSA, but two years on from Sir Callum McCarthy's path-breaking speech, which set in train the retail distribution review, the industry has stealthily moved on. Maybe that was the push it needed to catapult it in to the 21st century.

It has progressed, however, not by leaps and bounds, but in a quiet way, whatever the background noise, individuals and firms have seen the necessity of improving standards well in advance of any regulatory or legislative compulsion.

That is the power of the ongoing conversation the sector has been having. Whether IFAs compare themselves to old fashioned professional models, such as doctors, accountants and solicitors, or with newer professionals, such as those working in the knowledge-based industries, the important thing is that people are talking to each other in a progressive, cooperative and less confrontational way.

Since the McCarthy speech - even if the chairman of the Treasury Select Committee has set himself up as the prosecutor in chief of IFAs – this radical transformation has taken place without any proper recognition or acknowledgement from the authorities.

The change has not only been on the business plans of distribution firms, nor in the way advisers deal with their customers, but rather in the very conversations people have with each other.

How many people do you now hear talking about grandfathering, or being driven out of business by the monsters of Canary Wharf? Conversation among IFAs is now more positive, forward looking, about how best to deliver service to their clients and creating sustainable business with embedded value.

That, I suggest, is progress. What is more, a number of people, and I count myself in that group believe that the attack on IFA distribution models was driven not so much by an ethical or even genuine regulatory concern. But rather by the failure of the ill-conceived notion of depolarisation and Whitehall demands to do something – anything, to put right that failure.

That is the political elephant in the room. When the tsunami did come, however, it was not mis-selling of pensions or investments that caused it, nor advisers running off to far away lands with clients' money. It was the mortgage and retail banks, trying to punch above their weight, dealing in off balance sheet derivatives, while cooking the books or



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glossing over these dubious deals – just read their annual reports for examples of this outright forgery. All this has been conveniently put to one side.

But, the RDR is in danger of re-inventing the wheel. There is a perception that there is a cultural suspicion within Whitehall, Westminster and Canary Wharf, of the ethical base of IFAs.

There is a dislike of the low barrier to entry – a belief that to be a real professional one must go to the right school, a matriculation university and pursue a form of post-graduate professional training.

If the barrier to entry is too low all those East End barrow boys would have the audacity to believe they too can work in financial services, goes the reasoning. How dare they?

This and the traditional beliefs about salespeople selling snake oil have been the underlying reasons why the focus of the RDR have been on the side issue of remuneration – fees good, commission bad – and qualification – never mind about the quality of your advice, as long as you have the right paper qualifications.

It is my belief that both these non-issues have led us down the wrong track, the route of no return. Had we started out by looking at outcomes – helping people to provide for their financial needs at various stages in their lives and to protect their loved ones – we would have been in a much better place.

More than that, the focus on basing the new professional model on accountants and solicitors as the professional of choice – the very accountants who sat in their grottos while their blue chip institutions reported bogus figures so senior executives, all with their Ivy Leagued MBAs, and chief executives could claim their mega-bonuses which we now know were as fictional as a Graham Greene novel.

The truth is, if we had to start structuring a new profession we would not start with the mature professions – law, medicine or accountancy.

New professions are innovative, dynamic, knowledge-based; not conservative; they inspire and encourage and are not afraid to take chances. That is how we get change, that is how we progress.

In the dust thrown up by the sub prime crisis and the financial meltdown, what we are in fact witnessing is the failure of the business school model of conventional business education. Almost all their classic business educational models – from Taylorism as a method of production, to the invincibility of the so-called giants of corporate America – the entire banking system and leading manufacturing corporations – General Motors, Ford, Chrysler, Enron, Worldcom, AIG and others – the case studies given in business school have now proved to be failures or at least to be vulnerable.

This is not new. Progress is about change. At the beginning of the 1980s decade we were told to follow the Japanese way of business enlightenment; then following the 1998 collapse of the Asian economies, we were told that that model had failed, it was then the age of the dotcom model.

Then the dotcom model crash head first in the rush for competitive advantage. The truth is that the dynamism, the forward-thinking, the experimental and risk-taking enterprises



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that have stayed the course are the innovative enterprises inspired by the lone thinkers – Microsoft, Google, Dyson, Yahoo, Amazon, Virgin, Easyjet, Carphone Warehouse, Warren Buffet and others.

I am not saying that what worked for those enterprising individuals and companies will necessarily work for the distribution of retail finance.

For every generation, as society progresses, new occupational groups and professions have to re-negotiate their professional boundaries as science, technology and empirical knowledge push at the frontiers of human experience.

There is nothing new about this. Even in that most empirical of disciplines, science, the boundaries are always shifting, both in terms of knowledge and of application and who become the heroes.

From Copernicus to Galileo to Newton to Einstein, science has progressed by leaps and bounds.

In fact, over a period of time, it is amazing how these changes take place without even the slightest notice by the general public.

Take the moving boundaries between a medical general practitioner and a nursing practitioner, in which highly trained nurses are increasingly becoming the front line of contact for members of the public using an accident and emergency department of general hospitals.

This practice has now gone out in to local family doctor surgeries, even high street chemists are now getting in on the act.

The history of law is much the same: from intelligent but unqualified so-called barrack room lawyers to Queen's Counsels, to solicitors to solicitor-advocates to conveyancers, the law has been broken down over the years in bite sizes in such detail that a good trading standards officer is often better informed about consumer law than the average high street solicitor or junior barrister.

I say all this to make the point that, with or without the FSA's RDR, independent financial advisers, a new occupational class created by the 1986 Financial Services Act, is also a profession experiencing change.

How they cope with this will decide the long-term future of the sector. Those with the profession at heart have got to be prepared for others to move their tanks on to their lawns.

Be they the Thoresen general financial counsellors or high street banks seeking greater market share.

It is true, sometimes the flamboyant rhetoric of independent financial advisers displays an aggressive and defensive image that is far from the case. One such is the debate over money guidance and the need for IFAs to compete in that space with consumer advice bodies, churches and other religious groups, employers and affinity organisations.



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In a democratic market dominated by free choice, each individual has a right to decide if he or she wants to compete to counsel the low-paid and debt-ridden, but it is the language of rejection which grates.

Even if the sentiments are the right ones, it does not sound right describing those less fortunate than ourselves as if they are the great unwashed, as some ill-advised IFAs do.

At the top end of this battle for market share may be private wealth managers, private banks, stockbrokers, or whoever may emerge to fill that space; at the bottom end, this maybe generic financial guidance counsellors, or even banks; and in the middle it may be investment and protection sales specialists and/or family financial planners or even a new category of adviser.

Even looking at the advice landscape as it now is there is every reason to believe that growing product and advice sophistication is emerging as a natural cause of the division of labour within the sector rather than anything the regulator has up its sleeve.

Already we are seeing a battle to differentiate who are direct sales, independent financial advisers, financial planners, the list is endless, all based on the strategic minutiae of providing a saving and investment service to individuals.

It was ever thus: the territorial battle between midwives and obstetricians, between taxi drivers and mini-cab owners, between blacksmiths and welders, between actuaries and accountants, between barristers and solicitors, between journalists and printers – here the divisions are even more ridiculous, take the example between news reporters and feature writers, or between sub-editors and compositors. And this will go on as long as we continue to make advances in technology and invent new processes for doing many of the jobs with which we are familiar.

Take your pick: mortgages, investments, pensions, inheritance tax, equity release, all these have led to problems for, in the vast majority of cases, innocent financial advisers.

The design and promises made by the providers of personal pensions, which led to a £11bn haul by the regulator, was largely an issue for providers; so were precipice bonds and endowment mortgages.

Many people now predict that equity release, similarly, is a product waiting for a crisis. The more we get these well-engineered retail products, the greater the risk of product failure somewhere down the line.

Let us take, as another example, the many golden promises of variable annuities, which to a large extent are competing in the same space as equity release.

Few providers talk about the total expense ratio of the products, which, given that the provider must get its cut, along with the adviser and fund manager, will mean a hefty charge for the policyholder – at the most generous, about 6% or more at present.

Then what about the 'guarantees', which these third way products offer left, right and centre, are they worth the paper they are written on? Remember Equitable Life, the blue chip mutual?



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To the ordinary man and woman in the street, an income guarantee means exactly what the contract says, that come hell or high water that income is what the investor will receive. But is it?

Let us look more closely at regulation of the retail financial space. Regulation cannot be used as a weapon in the war of innovation, progress, versus minimal risk-management. Had that been the case when the Wright brothers were experimenting we will still be sailing in sloops and not flying.

As a journalist I can feel your pain. We are one of those empirical disciplines with a low barrier to entry – anyone who things he or she can string two words together can advertise themselves as a journalist.

There is no quality control: so what passes for journalism can vary from the semi-literate to the highly sophisticated, or, in other words, from product sales to financial planning.

And, in a lifetime of working in the business, I have never come across a journalist who does not have the self-deluding belief that he or she was the best in the world – just like IFAs.

And, like IFAs, the regulator wants to get its grimy hands on us, especially financial journalists. Just think of the background noise that followed the Cityslickers scandal that engulfed the Daily Mirror some years ago.

Journalists too are in the firing line – and we too are tiered. To be a national newspaper journalist you need a police pass; but that pass does not get you in the high security places, for that you need a further pass; but that pass does not get you in to certain briefings and press conferences which are meant to be public; for that you must be specially invited – and it goes on. Even to get email press releases and reports from certain organisations you have to be on an approved list.

Every time we knock down old barriers new ones are built in their place. But that is the challenge. It is part of human nature to take risks; that is why we have survived the numerous historical disasters that have struck the earth and many huge and powerful animals have not. That is why the cockroach survives and the dinosaur has not.

We learn from our mistakes; that is what drives our civilisation forward. Not so much social Darwinian theory of survival of the fittest, but survival of the smartest.

If the regulator continues to look in a rear view mirror and ignore where we are going, the vehicle will inevitably crash. We cherish the certainties of looking back, but looking forward is where the excitement and adventure is.

Education is the key, but not just delivered in the traditional way. We must find new and inventive ways of training future IFAs, from school leavers to the boardroom.

People must be given the freedom to make mistakes, even to fail and to try again without the fear of some sort of disapproval.

The duty of the state, and its agents, is to put in place a safety net, not only a monetary one, but an educative one. And this is the problem: in the new authoritarian state too little emphasis is put on that freedom to fail, to become a lay about, a hippy, a scrounger. A progressive society provides multiple avenues of re-entry.



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Our obligation as a civilised society is to make sure if for whatever reason those people want to come back in to the embrace of society then the mechanisms are there to assist.

That goes as much for IFAs as it does for their clients. Therefore in reforming the IFAs regulatory sector it is important not to throw out the baby with the bath water.

IFAs are in the caring profession. They are there to embrace all of society, from the wealthy and strong, to the mentally and physically ill, carers, the elderly - from intergenerational financial planning to powers of attorney to will-writing. This is the new profession I will like to see – one measure of the outcomes we hope to achieve.

Let me fly a flag for protection products while on the subject. At a time like this, when the average person is concerned, if not worried, about the future of his or her job; about holding on to his home; the children's school fees; protection products are still failing to grab the public's attention.

It is a failure, I suggest, of both the providers and advisers and not the public. Yet the RDR has ignored it, most financial advisers do not raise it with customers, and even the financial media tend to treat protection as a product leper.

Conclusion:

Let me finish by reminding you that the credit crunch and its repercussions will focus minds. We are now in the age of multi-disciplinary creativity; of team work, of looking at clients (or consumers) in the round and not just focusing on our area of expertise.

Sir Callum may have started an important debate, but to my mind, a lot of it has focused too narrowly on qualifications and remuneration, rather than the quality of service and outcomes.

Having said that, there is everything right about the RDR and the demands it is making on the industry, even if the omissions are too glaring and the outcomes too engineered.

I somehow feel there is too much of a fixation on examinations and paper qualifications rather than how knowledge and skills are applied. Financial advice is an applied discipline.

Even so, we are in a much better place than we were in September 2006. That should be Sir Callum's epitaph.

Thanks you for listening to me.



Controlling the crunch

The future of regulation

Kinetic Partners

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Setting new standards in professional services

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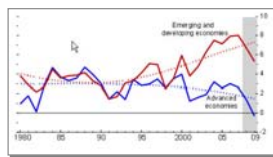
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The economic climate

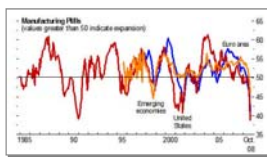
Rapidly weakening prospects

- World growth is projected to drop just over 2% in 2009 (lower GDP growth)
- Households and firms are anticipating recession and are cutting back on consumption, notably of durables, and investments (lower confidence)
- Markets are anticipating higher corporate default rates, as well as higher losses on securities and loans (increasing corporate bond spreads)

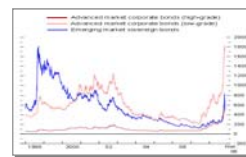
Global real GDP growth and trend (1980-Nov 2008) (% change)



Business confidence indicators (1985 - Oct 2008)



Sovereign and corporate bond spreads (1998- Nov 2008)



Source: IMF

The asset management climate

- Fund of funds (UK)
 - Assets under management at the end of Q3 2008 reached £31.4 billion, down from £33.3 billion (previous two quarters). Balanced funds accounted for the majority of funds under management, representing 65% of assets
- Fund of funds net sales (UK)
 - Total net sales were £529.2 million in Q3 2008, down from £1.1 billion in Q2 2008, and lower than the £813.6 million seen in Q3 2007
- Tracker funds (UK)
 - Funds under management in Q3 2008 reached £20.9 billion, a fall of 12% from Q2 2008 and 23% lower than the £27 billion in Q3 2007
- Investor redemptions from US Hedge Funds since September 2008 total USD 43bn
- 700-1000 funds may disappear by the end of 2008; some predict 50% close by 2009

Quarterly change Q3 2008



Source: IMA

The political and social climate

- Asset management industry not viewed as central to crisis
- Hedge funds are a target
 - Rich investors + light regulation + redemption restrictions
- Strong calls for detailed regulation of the asset management industry
- European prime ministers' attacks on the industry (hedge funds in particular)
- Everyone wants to place the blame:
 - On the banks
 - On the rating agencies
 - On the hedge funds
 - On the regulator

Debate on regulatory regimes

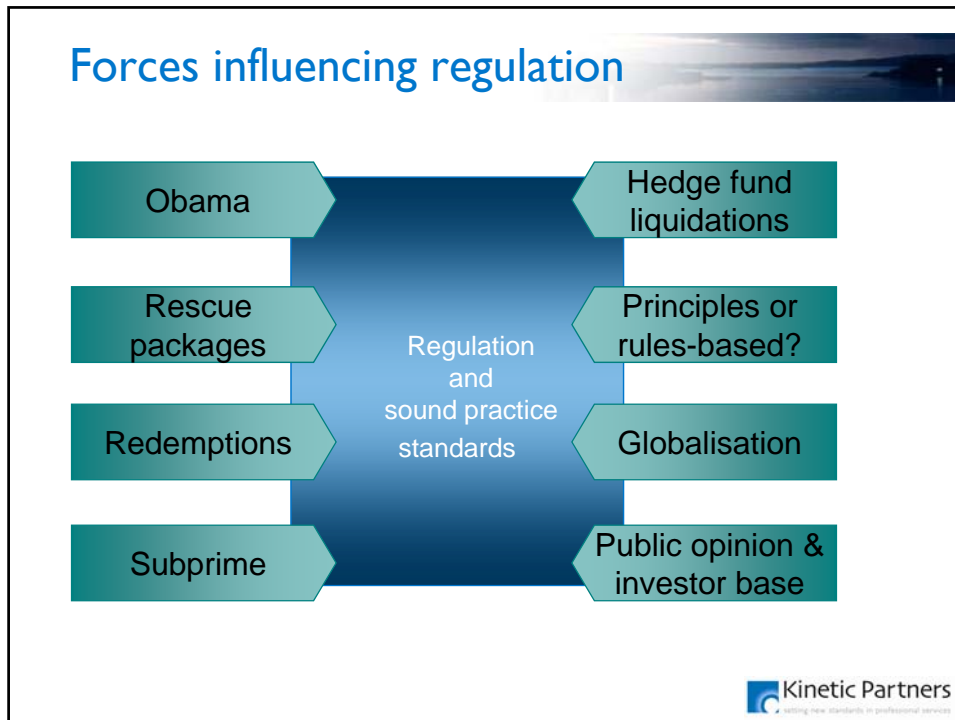
Which is the right one?


- The US and Europe have different regulatory systems

"I believe that analysis of events supports an approach to regulation which has a greater emphasis on the consequences of firms' actions rather than on rigid adherence to specific rules."

Hector Sants, FSA Asset Management Conference, 17 September 2008

- Will Obama push for mandatory authorisation of all asset managers?



- ## Future regulatory focus
- The FSA statutory objectives are still at the heart of regulation:
- **Market confidence**
 - Maintaining confidence in the financial system
 - **Public awareness**
 - promoting public understanding of the financial system
 - **Consumer protection**
 - Securing the appropriate degree of protection for consumers; and
 - **The reduction of financial crime**
 - Reducing the extent to which it is possible for a business to be used for a purpose connected with financial crime
- 

Future regulatory focus

- New framework for the use of UCITS funds
- How will we protect the retail consumer and pension funds?
- Industry standards
- Relationships with Prime Brokers
- Valuation and treatment of redemptions
- Risk management and counterparty risk
- Governance, systems and controls
- Market Integrity, rumour policies

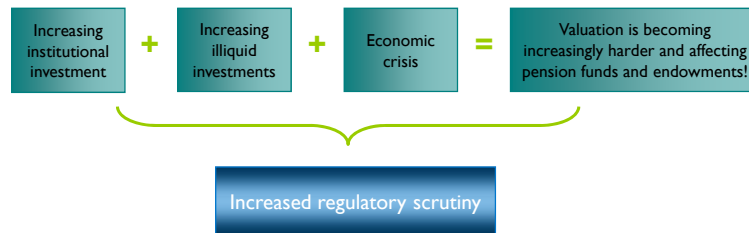
The importance of best practice

Hedge fund managers potentially in the firing line

- Hedge funds signed up to the Hedge Fund Standards Board (HFSB) currently represent approximately 50% of assets under management (AUM)
- Why the sudden uptake?
- What is the regulator's view on standards?
- Standards may be the only way to avoid detailed regulation
- The credit crunch = a catalyst for wider acceptance of the standards?

Valuation

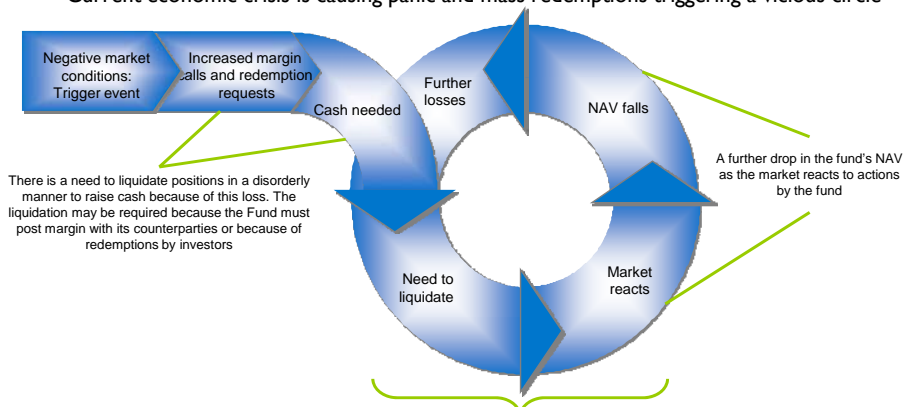
- Valuation is seen as one of the key operational risks by the regulator
- What's the issue?



- We have found that clients, not just hedge funds, have good processes, but are lacking in detail and controls to ensure they are being followed

Valuation

- Mass redemptions are a cause for concern for the regulator
- Current economic crisis is causing panic and mass redemptions triggering a vicious circle



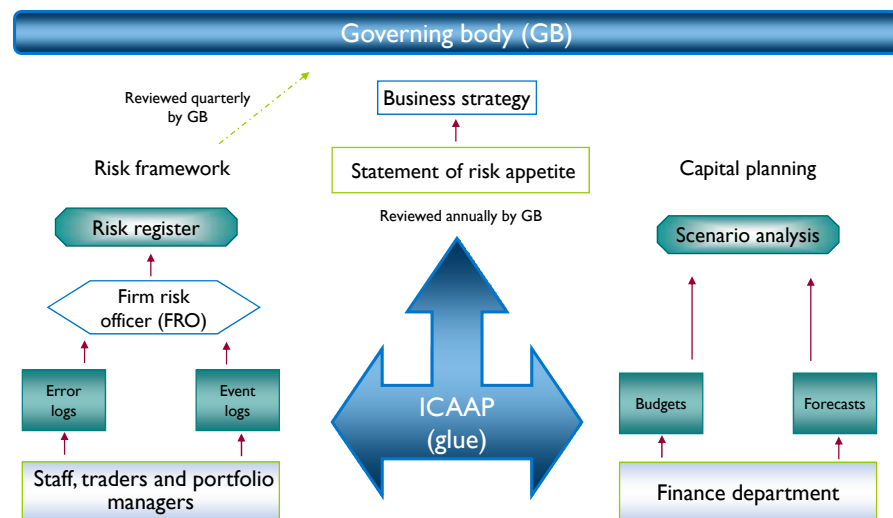
This downward spiral can be exacerbated if other market participants have information about the Hedge Fund's positions. The point of no return comes when the effect of liquidation has a greater impact on the value of the remaining Fund position than the amount of cash raised from the liquidation. If this happens, the Fund is caught in an accelerating, downward spiral, and eventually it will not be able to satisfy the demands of its creditors or investors. Once the losses move beyond a critical point, it becomes a self-sustaining crisis that feeds off the need for liquidity, a need imposed by the demands of the Hedge Fund's creditors and investors.

Risk management

- Review of prime broker (PB) agreements
- Prime brokers no longer dictate the relationship
- Not putting all eggs in one basket
- Long only assets are moved from PBs to reduce risk
- Hedge funds have moved to banks with big balance sheets
- Regulators were always worried about the threat that hedge funds posed to PBs, but the reverse has been proven to be the case
- Will the regulator promote changes to bankruptcy laws? Controls to safeguard assets?

Risk management

ICAAP



Risk management

- Developing a risk management framework
- Developing a risk appetite statement
- Developing a Risk Register
- Risk Identification workshops
- Developing procedures for operational risk management
- Operational risk management training
- Providing an infrastructure to support
 - Control risk self assessments
 - Scenario and stress test workshops
 - Loss event data collection
 - Key risk indicators
 - Risk reporting

Governance and control

- Survival of the biggest?
- The Advanced Risk Responsive Operating FrameWork (ARROW) visits will continue to focus on governance
- Will ARROW visits become more frequent?
- Senior Management Arrangements, Systems and Controls (SYSC), what is a compliant culture?
- Internal Capital Adequacy Assessment Process (ICAAP), embedding
- Governance is an area of focus by the HFSB, the President's Working Group (PWG), as well as the Alternative Investment Management Association (AIMA) and the Mutual Fund Association (MFA) - will we see convergence of standards?

Market integrity

- One of the FSA's statutory objectives - maintaining confidence in the financial system
- This confidence is truly and utterly shaken
- Minimise market abuse - strong focus on rumours led to an almost global ban on short selling
- The FSA has collected approx. £100m in fines since 1997, compared to the SEC's \$1.6bn this year – will we see a tougher FSA?
- FSA Market Watch newsletter:
 - Issue 24: Appropriateness of market conduct controls within the hedge fund sector
 - Issue 26: Market abuse (deterrence to insider dealing)
 - Issue 29: Market abuse controls

Market integrity

Market Watch 29 (October 2008) highlights areas of concern and looks to raise awareness of well thought-out and applied market abuse control procedures, it covers the following areas:

- Culture/senior management responsibility
- Compliance
- Control of inside information
- Monitoring of trading activity
- Training
- PA dealing
- Telephone recording

Principles or rules based?

Rules based regulation is not practical:

- Financial markets are global
- Funds operate in multiple jurisdictions
- Funds differ from each other in terms of strategies, instruments and management
- It will be very difficult to create global, harmonised, detailed rules
- It will be extremely resource-intensive for all parties concerned to enforce global, harmonised, detailed rules

But...

- Principles-based regulation needs to have teeth!

Principles or rules based?

- Authorisation of individuals and firms is key to the FSA's principles based regulation
- SYSC are a key cornerstone in principles based regulatory outcome
- SYSC forms part of the FSA's Principle 3:

A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems

- Senior management are ultimately responsible and robust controls are necessary to ensure a firm complies with its obligations under the regulatory system

About us

- Kinetic Partners, established in March 2005, is a provider of professional services dedicated to the asset management industry
- Kinetic Partners was formed to provide:
 - the industry with a viable alternative to the 'Big four'
 - a one stop shop for clients wanting in-depth industry expertise
 - a true global partnership structure offering seamless service to its clients
- Kinetic Partners is the only global professional services boutique to offer audit and assurance, consulting, forensic, corporate recovery and corporate finance services to the asset management industry



Meet your speaker



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Monique specialises in international regulatory issues and has extensive experience in dealing with regulatory bodies in most financial centres. Prior to joining Kinetic Partners, Monique was Head of Business Development at the Cayman Islands Stock Exchange. Earlier, she managed the Transaction Monitoring Unit at the FSA.





Conference Chairman's Closing Comments

Justin Urquhart Stewart
Marketing Director & Co-Founder,
Seven Investment Management

Closing Remarks

Tony Vine-Lott
Director General, TISA



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