Financial*Innovation*

Bi-monthly newsletter from the Centre for the Study of Financial Innovation   Issue no 27   May 2003

From the director…

A meeting of the Centre's Governing Council (held in mid-April) spent some time looking at the future work programme. Among the areas of particular concern:

- Where risk is ending up: We will put together a very open-ended discussion on just what has happened to all the financial risk that (we are told) the banks are packaging and selling off. Where is this "financial sludge" settling? With the insurers? the reinsurers? US 401(k) plans? or is it all with the German landesbanks? (If you are interested in participating, please let us know.)

- Anti-money laundering legislation: No one (well, hardly anyone) is in favour of money laundering or promoting terrorism. But there is a strong feeling that AML activity has lost touch with reality, and that the burden it is now imposing on banks is disproportionate to any benefits that might occur – and, indeed, incompatible with other aspects of government policy. (There is also a broader point here: over the last couple of years, the UK financial services sector has been subject to around 20 investigations, task forces, reviews etc – all of which have made firms' lives that much more difficult. Were they worth it, or have government and the regulators lost their sense of proportion?)

- Reinsurance: Rumours swirl around this sector, and it is certainly worth looking at (independent of the "blue sky" meeting on risk).

- The E-finance renaissance: There is a strong sense that (although hardly anyone has noticed) internet finance has made a big comeback. Some people are even making money at it!

- The longer-term sociopolitical impact of inadequate savings: It is not just pensions, and the collapse of DB schemes. It is a broader problem of inadequate savings, particularly by those at the bottom end of the scale who may not even have house equity to trade when they need it. Linked to this is a broader discussion of what a long period of low/no inflation will do – to society as well as to the FS sector.

- The future of soft commissions: The new FSA consultative paper could well change the face of investment research in this country. AH.

Publications

Four reports have been published since our last newsletter - one in April and three in the first two weeks of May (which must be some kind of record):

- *Thinking not ticking: Bringing competition to the public interest audit* (April 2003), by Jonathan Hayward. £25/US$40/€45. This is an important (and hefty)

Forthcoming Diary Dates Round Tables

May 15
The Higgs report and corporate governance: A round-table discussion with Derek Higgs and Digby Jones.

May 20
Operational risk: the current state of play: A round-table discussion with Charles Taylor (RMA).

May 21
"Basel lite: recommendations for the European implementation of the new Basel accord": A round-table discussion on the recent CSFI report wit the author, Alistair Milne (Cass Business School).

May 22
"Assessing the ISD review": A round-table discussion on the recent CEPS report with the author, Mattias Levin.

CSFI
Centre for the Study of Financial Innovation

Many thanks to Standard & Poor's, CrestCo/Euroclear, PA Consulting, Z/Yen, the FSA, TRW Investment Management, Schroders, Deutsche Bank, Preroy AG, IFSL, Brigade Electronics, Barclays, Link Interchange Network, the Futures & Options Association, the DTI, KPMG, HM Treasury, Fitch Ratings, ISMA, Alliance & Leicester, the Corporation of London, Accenture, Ernst & Young and Lloyd's of London for renewing their sponsorship.

paper that proposes a new kind of "public interest" audit for large or strategic companies. This would not replace the existing audit, but it would complement it. It would be carried out at the consolidated level by a new audit animal (know, rather infelicitously, as an "evaluator"), and would use the conventional audits carried out by Big 4 firms at the operating subsidiary level. The wrinkle is that evaluator firms could be quite small; they would be skilled partnerships with no other links to the firms they audit, and nothing to gain but a reputation for integrity. (This paper was published simultaneously by the CSFI and the New York CSFI.)

- *'Basel lite': recommendations for the European implementation of the new Basel accord* (May 2003), by Alistair Milne. £25/US$40/€45. We have had to rush this paper out in parallel with the Basel Committee's CP3. It offers the possibility of a lighter-touch regime in Europe. Milne suggests that CAD3 (which will implement Basel 2 in the EU) should only include general principles in the main text; the details should be in technical appendices that can be amended fairly easily as risk management evolves.

- *Pensions in crisis? Restoring confidence* (May 2003), by Andrew Hilton. £25/US$45/€40.This is pretty much the proces-verbal of a conference held on February 26, to look at the impact of two new key documents – the DWP's green paper on UK pensions and the Treasury/Inland Revenue paper on the tax treatment of savings. Sponsored by Aberdeen Asset Management, Hewitt Bacon & Woodrow, Cityforum and Pensions World, the conference covered a huge amount of ground, and (thanks to a follow-up meeting) came up with eight key recommendations – raise the state pension, rethink pensioner credit, consider changing the "one percent" rule, abolish sex discrimination in annuity provision, reconsider compulsion, provide better data (and data collection), do more for financial education, and (most important) investigate the possible "depoliticization" of pensions.

- *The global FX industry: coping with consolidation* (May 2003), by Christopher Swann. £25/US$45/€40. Swann was the FX correspondent for the FT (now the economics correspondent), and he carried out this survey of where the FX market is going for Reuters. Nonetheless, it is a completely independent piece of work (indeed, its conclusions on technology will not necessarily be welcome to Reuters), and we are delighted to publish it.

Within the next few weeks we will also publish a new (and, we think, important) report into perceptions of City competitiveness, written by David Lascelles (with support from the Corporation). It is based on over 70 in-depth interviews with leading City figures and on a detailed questionnaire that was answered by almost 300 respondents - giving us a real statistical base to work with. The answers are not necessarily what one would expect. All CSFI reports are available through Central Books (0845 458 9910). AH

Round-tables

The National High-tech Crime Unit. With Tony Neate (NHTCU). January 8, 2003.

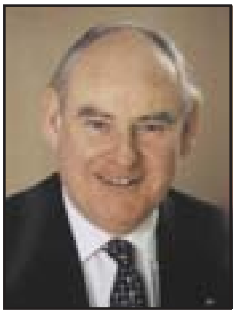
Tony Neate is responsible for industry liaison in the NHTCU; he is also secretary of ACPO's high-tech crime working group and sits on both the Internet Crime Forum and the Digital Evidence Group. But does he understand finance? And do he and his bosses (notably Len Hines, the head of the Unit) have the resources to follow up on the information and leads provided by the industry? There was a good deal of scepticism at this meeting. After all, NCIS gets upwards of 60,000 anomalous transaction reports each year – but doesn't have the resources to follow up even one percent of them. The NHTCU has just 44 people. Even when a current expansion is complete, it seems certain that it will be under-resourced relative to the job it has chosen to play. What about more interchange with industry? Secondments from the private sector may be very fruitful. AH

The OECD's work on tax havens and on the response to globalisation. With Jeffrey Owens. January 13, 2003.

Jeff Owens (an engaging Welshman, with more charisma than one normally associates with the OECD) runs the Organisation's Centre for Tax Policy – which covers the perennial fight against "unfair" tax competition, tax havens, e-commerce and model treaties. The aim is to ease "frictions" between national systems (rather than to impose some kind of global tax harmonisation), to improve the functioning of tax administrations, to promote best practice and to counter tax cheating. All very admirable, and a surprising amount of progress has been made. There are now model conventions, almost 1,700 bilateral tax treaties and around 95 transfer pricing agreements. There is also much more interaction between OECD countries and the big non-OECD players (Russia, India, Brazil etc). Indeed, the OECD has helped set up tax centres in several countries. Interaction with business has also changed; there is now a lot more consultation and a lot more opportunity for technical assistance.

Among the key initiatives at the Organisation are the inter-governmental Committee on Fiscal Affairs and a number of technical advisory groups (known as TAGs), which involve input from industry and non-members in areas like e-commerce. All told, the OECD is doing a lot in this area – and most of it seems (surprisingly?) constructive and benign. AH

The Financial Services Practitioner Panel. With Donald Brydon (AXA Investment Managers). January 21, 2003.



Donald Brydon

Aside from his role with AXA, Donald Brydon is also chairman of the Financial Services Practitioner Panel. Given that we have already had Colin Brown round to talk about the Consumer Panel, it seemed only fair to give the practitioners a shake – and a good turn-out indicated that (not surprisingly) there is a lot of interest in what Brydon *et al* are up to.

Independent? Sure; but Practitioner Panel members are appointed by the FSA, so don't expect too much boat-rocking. Powers? The Panel can demand an explanation of the FSA, and the FSA has to be prepared to justify its decisions. There is no "megaphone diplomacy", but the Panel can/does monitor the FSA, communicate a practitioner vision and offer a wider sector view. It also produces an annual practitioner survey which provides an overview of practitioner attitudes to regulation. Most recently, this has highlighted three issues:

- the cost of regulation (now widely felt to be excessive);
- the excessive complexity of the "unnavigable" Handbook; and
- the pressing need for more guidance (though Brydon was sympathetic to the FSA's reluctance in this area).

Brydon made it clear that the Panel does not duplicate the activity of trade associations, but it does liaise with the TAs and can help present their case to the FSA and its Board. It has also beefed up its own capability with a small secretariat (run by Elisabeth Bertalanffy), which is an important step forward. Looking ahead, however, Brydon expressed concern about regulatory overload, and the tremendous burden emanating from Brussels. He also listed several "areas of challenge":

- the need to keep London's international competitiveness in the FSA's mind;
- the need to emphasise the importance of market forces;
- the need for early input – particularly on European issues; and
- the strong desirability of better consumer education.

All told, a powerful presentation. AH

Chairman Volcker's world view. With Paul Volcker. January 31, 2003.

No problem getting an SRO audience for Paul Volcker. He may have retired from the Fed more than a decade ago, but he is still a player, and his views (on anything) count. This was a *tour d'horizon*, in which the former chairman of the Federal Reserve Board touched on a dozen or so discrete topics, including:

- the need for tougher legislation in the auditing/accounting area (self-regulation is not enough, but there are "too many bells and whistles" on Sarbox);
- general support for the idea of splitting the chairman and CEO roles (an idea that is more radical in the US than over here) – and specific support for more authoritative and independent board members;
- obvious distaste for the escalation in corporate remuneration – particularly in relation to rank-and-file income;
- strong support for the expensing of stock options – indeed concern about the way the issuance of stock options misaligns CEO interests and those of stockholders;
- obvious concerns about the potential unintended consequences of the Basel 2 process;
- his well-known preference for more FX stability (current levels of volatility are, he felt, systemically disruptive); and
- some support for the idea that officially-sanctioned debt standstills and reschedulings (including the SDRM) should not be seen as the end of the world.

Volcker was very diplomatic (he is well aware that what he says can still move markets). But there was a lot between the lines to read. AH

"Creating the single European market for financial services." With Sir Nigel Wicks (CrestCo/Euroclear) and Malcolm Levitt (IBM Consulting). February 6, 2003.

This was a round-table on the recent paper produced by a City working group chaired by Sir Nigel Wicks. It offers an alternative approach to realising the benefits of a single market in financial services, offering eight "Principles and Practices" that would accelerate "a competitive, innovative, fully functioning single market".

That's all pretty heady stuff, but what it reflects is a profound dissatisfaction with the sluggish progress made post-Lisbon by the FSAP. And, as important (at least for Malcolm Levitt), growing dissatisfaction with some of the compromises that are having to be made to push the FSAP along at all. Formally, three-quarters of the FSAP is in place, but there are concerns that the single market won't be quite what we expected - or wanted. To some extent, this isn't the Commission's fault; directives are shot through with ambiguity and let-out clauses that permit anti-competitive discrimination. Plus, the Commission can only act (when there is abuse) on the basis of complaint and evidence of aggrievement – and people are generally unwilling to complain.

Under these circumstances, Wicks *et al* figured the time had come for a new private sector initiative that would include representatives of the major TAs. It is not an architectural blueprint for Europe; it doesn't even deal with key issues like a single regulator. But it looks at operational issues, and lays out principles for how things ought to be done. In particular, it urges:

- priority for market solutions over regulatory *fiat*;
- a preference for policy instruments other than legislation;
- more consultation;
- support for risk-based regulation;
- more emphasis on enforcement;
- a model of fair and honest markets;
- better representation for practitioners in the policy making process; and
- creation of a European Financial Market Forum to develop a coherent philosophy for the single market. AH

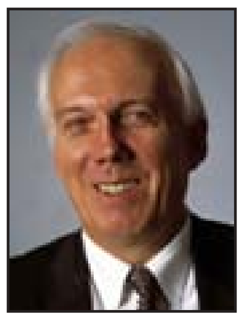
The outlook for German banking. With Elvira Scheben (Deutsche Bundesbank), Holger Schmieding (Bank of America) and David Marsh (Droege). February 11, 2003.

A tricky one this; it turned out to be a rather more sensitive issue than we had expected. Clearly, there have been huge changes. In 1990, for instance, Deutsche had the biggest market cap of any bank in Europe – ten times that of RBS. Now, it is No 10, and RBS's market cap is twice as big as that of Deutsche. But the myth of German banking supremacy persists. What are the problems? Lack of consolidation; big cultural differences between institutions; unrealised economies of scale; the Neuer Markt scandal; the construction bubble; macro-economic underperformance; an inflexible labour market, etc etc. But it is important to keep all of this in perspective: it is a crisis of earnings (if it is a crisis), not a crisis of existence.

Plus there is the problem that Germany is simply overbanked; there are still 37,000 bank branches, and the top four banks have no more that 16% of the business. In contrast, state-owned banks have 37% of retail banking, and cooperatives have 15%. Ironically, speakers agreed, margins at the local level, where the big banks have never competed, are still pretty good – but the big banks and the landesbanks have slugged it out in their respective markets.

No one was very impressed by comparisons with Japan. The situation is difficult, but German NPLs are nothing like as serious (except it was suggested in the East German mortgage sector) and the macroeconomic impact is very different. The lack of concentration actually gives the economy some protection. Plus, change is coming. Elvira Scheben emphasised that consolidation is happening – even if, for the most part, not among the "three pillars" of the banking sector (the big banks, the public sector banks and the cooperatives). And there is no evidence of a real credit crunch. Still, no one was too happy, and the Commission's decision to stop state governments guaranteeing new bank bond issues could be a problem. After all, the landesbanks are already the banks who are probably under biggest threat as far as profitability is concerned. There is a story here – but probably not quite as apocalyptic as some outsiders seem to want to believe. AH

"The impact on the City of UK eurozone membership." With Prof. Alec Chrystal, Alex Stojanovic (Cass Business School), Steve Wynn (Deloitte Consulting) and David Lascelles (CSFI). March 11, 2003.


Alec Chrystal

This was a round-table on a recent report that Cass did for the Corporation on how the UK banking sector would be affected by eurozone membership. It was not pro or anti-euro; nor did it have anything to do with the Chancellor's fourth test. It just looked at three scenarios – entry asap, continued uncertainty, and a clear kicking of the euro-issue into touch. The main conclusion: most institutions could live with going in or staying out – but they don't like the uncertainty. There is "a broad balance that we can make it work if we know what the future is". Beyond that:

- it is pretty clear that the euro is well down the City's list of priorities;
- for those who have thought about it, conversion costs are an issue, and would tend to be lower if entry was quick (Y2K teams are still around); and
- the only business that would be significantly hit is FX.

The technology point is important – and not just for banks. Indeed, the insurance industry may be even more severely impacted by conversion costs. And don't think the cost is insignificant: one estimate was £200-400 million per institution, which is a good deal more expensive that it was for present eurozone members. Multiply that by the number of institutions affected, and it is suddenly pretty big money. AH

The impact of Sarbanes-Oxley on the City. With Barbara Jones (Kirkland & Ellis) and Jon Rowden (PwC). March 14, 2003.

Barbara Jones

A very strong turnout suggests that a lot of people in the City don't yet feel they understand Sarbox – they just figure it is important, probably wrong-headed, and likely to do a lot of people damage (unless they are lawyers).

Certainly, it is important; Barbara Jones called it the most important US financial legislation since 1933, and there wasn't much dissent. It is a clear break with the traditional SEC approach of trying to work with foreign issuers. This is tough, take-no-prisoners, highly political legislation.

What are the key issues? First is probably the breadth of coverage: if you want to trade securities in the US, you are caught, as you are if you are listed or have securities registered, or are subject to reporting requirements, or have ever filed a registration statement with the SEC. Second, the onerous nature of the certification procedure, which involves both the SEC and Department of Justice; the compliance bar is set pretty high, with the potential for both civil and criminal penalties if a firm gets anything wrong. Sarbox is extremely prescriptive, very US-centred and does not make too many concessions to non-US firms (though this is still being negotiated, and there may be a little more leeway). Management's attestation of financial reporting and controls will be a hard pill for many to swallow – and swallow it they will have to, given the very tight deadlines and absence of SEC exemptions. Jon Rowden pointed in particular to the impact on audit committees and the requirements for auditor independence; even though there is enough room for a "comply or explain" approach, big changes are inevitable. AH

The role of the rating agencies. With Andrew Fight, author of *"The ratings game"*. March 26, 2003.

Andrew Fight is a man with a mission. Although his book is a sober and rather earnest review of how the ratings business got to where it is today, his feisty presentation pulled no punches. The raters are privately-owned businesses that levy a fee on issuers; they are a quasi-monopoly, accountable to no-one; the public endows them with an aura of infallibility that is not shared by professionals who know their track records; they have an ethnocentric US view that links them with US foreign policy goals. Plus the impenetrability of the NRSRO qualification process acts as an effective barrier to entry, and Basel 2 will give them a quasi-official status etc etc.

All powerful stuff – but probably a bit OTT. However, it was clear that what Fight had to say resonated with quite a few around the table. There is genuine concern about barriers to entry, the pressure of unsolicited ratings, the absence of a European counterweight (though Fitch is French-owned), even about the level of professional standards vis-à-vis the City/Wall St. world of analysts. To their credits, the raters were remarkably open – and even shared one or two of the concerns raised by critics (notably on the two-edged sword of Basel). There are real issues to discuss here, but probably in a cooler, more dispassionate format. AH

Current issues in the European clearing and settlement space. With Pen Kent (former chairman of the European Securities Forum), Arun Aggarwal (London Clearing House) and Huw van Steenis (Morgan Stanley). April 1, 2003.

There is a big appetite for information on what is going on in the C&S space – but maybe what we really needed was an idiot's guide to what is actually going on today. The C&S landscape is changing so fast that it is no longer safe to assume that everyone shares broadly the same body of knowledge. Nevertheless, a lot of powerful points were made, including:

- The distinction between the "short and thin" domestic C&S value chain and the "long and fat" cross-border value chain, where there is much more decay risk and more people trying to extract a rent from it. The key is trying to make cross-border C&S short and thin, but no one has really cracked it yet.
- The continuing controversy over the "horizontal" and "vertical" C&S models. Not surprisingly, the horizontal model got most support, though the efficiency of the vertical model cannot be ignored. What about a single vertical silo for the whole of Europe?
- The number of competing visions. The Commission, the ESF, national governments, Giovannini, the Group of 30, CESR – everyone has different ideas. At the same time, however, there is a clear lack of leadership; everyone seems to want to leave it to the market.

There seemed to be a sense that "industrial logic" argues for the ESF approach – a cheap and cheerful commodisation approach, viewing C&S as a Railtrack-like utility. And maybe that is where Euroclear is going. But it won't be easy. The Germans pose one problem; maybe the custodian banks are another. What about outfits like OM? Is better technology the answer? There is also the governance issue; after all, Euroclear is currently regulated as a Belgian bank, which cannot be right.

One fascinating question (as always) is cost. It was suggested by one of the speakers that, when one looks at end-to-end transaction costs (including brokerage and custody fees etc.), the cost of exchanges and CSDs is only about 10% of the total. Brokerage alone accounts for 60% - which makes one wonder what all the fuss is about. Even if (as McKinsey suggests) the total incremental cost of C&S in Europe is €4.5 billion/year, that is still less than the cost of UK stamp duty. That said, it was also acknowledged that we now have a much better handle on just what back office costs are – and that in itself will tend to drive those costs down. One to revisit, soon (any suggestions as who might offer an up-to-date *tour d'horizon* would be much appreciated). AH

"Global Development Finance 2003". A round-table discussion on a new World Bank report, with Phil Suttle and Hans Timmer. April 4, 2003.

The GDF is the Bank's annual review of global financing conditions for developing countries. This year, it was published at a particularly fraught time: according to the authors, the Iraq war had already cost the global economy about half a percent of GDP and had added a premium to the oil price of anywhere from US$5 to US$15 a barrel. It also risks aborting the modest recovery that the Bank believes it saw for most of the developing countries before war broke out. As Timmer and Suttle put it, there has been "a modest inflexion point" in private capital flows to developing countries, especially in Latin America (which should see a net inflow for the first time in three years). Plus, FDI is still quite strong – though it could be vulnerable to the war as well as to regional problems like SARS (the Bank is clearly following the progress of this disease across Asia very carefully, not least because of its potential impact on the global economy's star performer, China – whose growth has so far accelerated in the face of a global downturn). And ODA actually increased last year.

One lesson of the GDF is clearly that, relative to other flows, FDI is resilient – even if it rotates out of non-tradables to tradables (which seems to be what is happening), the total volume has remained surprisingly stable as investors look beyond current problems.

This year's GDF also carries a detailed look at worker remittances – which are an increasingly important source of external financing. At about US$80 billion a year, they are second only to FDI in the overall financing of developing countries – and probably a lot higher than that given that an unknown proportion is remitted outside the recorded banking sector, via *hawalah* or *chop* or *hundi* systems. (Both worker remittances and alternative money transfer systems are areas we must look at.) AH

The US approach to anti-money laundering legislation and the fight against terrorist financing. With Prof. Jimmy Gurulé. April 14, 2003.

Until barely a month ago, Jimmy Gurulé was US Treasury Undersecretary in charge of the customs service, the Secret Service, the Bureau of AT&F, FinCEN, OFAC etc etc. Now, he is back at Notre Dame as a law professor – but he is still one of the world's key experts on AML and terrorist finance. He is also all-world on the intricacies of the so-called PATRIOT Act, which was the main focus of his presentation. He pointed in particular to three very controversial provisions (all in section 3, which deals with money-laundering):

- <u>Section 3-13</u>, which prohibits US correspondent accounts with so-called "shell banks" – banks with no physical presence (and essentially no legitimate business) that spring up in dodgy jurisdictions like Nauru and the Ukraine. In his opinion, Congress was "on the mark" with this one.
- <u>Section 3-11</u>, which permits the Secretary of the Treasury to designate a particular account, a transaction or an entire jurisdiction as a "primary money laundering concern" – and, such a designation having been made, to apply a range of sanctions up to a flat prohibition on all financial dealings with a country. This has been used – but only sparingly. And Gurulé was concerned that the decision to withdraw the designation on the Ukraine may have been taken a bit prematurely since, so far, it is mostly fine words and not many actions that have come out of Kiev. Still, he accepted that diplomacy is a big issue here.
- <u>Section 3-19A</u>, which is the trickiest in Gurulé's view. It authorises the forfeiture of funds in a US interbank account if, in the opinion of the US authorities, the foreign bank has an offshore account that holds the proceeds of a crime committed within US jurisdiction for which forfeiture would be a normal penalty. In other words, if a drug lord (or terrorist) stashes money away in XYZ Bank in Geneva or London, the US can go after an equivalent amount of money held in an XYZ account with, say, Citigroup in NY. This is, he said, "quite profound and very controversial" – not least given the extraterritorial reach of US jurisdiction in certain (terrorist-related) cases. Plus, he said, it has already been invoked five times in the last 18 months.

This was a powerful round-table that dealt authoritatively with some very difficult issues. Thanks to Linklaters for hosting it (so that the Centre could spend what we usually spend on a round-table as our contribution to Gurulé's air-fare). Given the price of legal advice in the US, it seemed like quite a good trade since what Gurulé had to say (on 3-19A in particular) seemed very important. AH

Whither the German equity culture? With Rudiger von Rosen (Deutsches Aktieninstitut) and Rainer Riess (Deutsche Boerse). April 24, 2003.

With this round-table we wanted to get a sense of whether the German equity flame which flickered briefly in the late 1990s was truly extinguished or just sputtering. Even though both our speakers were torch carriers for the cause, the light that shone was at best dim. Both described the state of shock that much of the German investment community was in (more on the institutional than retail side: the number of private shareholders actually went up 600,000 last year, amazingly). They also highlighted strong political resistance to the tax and regulatory reforms needed to spark everything off. But there are also powerful forces pushing for change: the collapsing banking system can no longer fund growth companies to the same extent, pension funds are growing and, as we already know, the Germans love investing online. So maybe there is hope, though Rudiger von Rosen's scenario lacked urgency: he was talking about the year 2010. DL

Financial and non-financial reporting in the knowledge economy. With Richard Mallett (CIMA), Tim Hoad (IntangAbility/DTI) and Paul Omerod (Synchroni). May 6, 2003.

A very difficult round-table, focussed on how companies should treat the value of intangibles – brand, culture, skills, networks, reputation, software etc – in their accounts, in the forthcoming OFR (which will provide some guidance for larger firms), and as a broader context for understanding a firm's true business. It was hard for a layman to appreciate just how inadequate and arbitrary current rules are – particularly when it comes to what can actually be put on the balance sheet. But it is equally difficult to envisage a new approach that would provide meaningful data that is comparable both within an industry and cross-sector. Plus, there is the important issue of confidentiality (which may be more of an issue here than with conventional assets). The Company Law Review has helped a bit, but all three speakers felt a lot more needed to be done.

There was no resolution, but what became clear is that the debate about intangibles reflects a deeper debate about what a company really is, who its stakeholders are and what its value is. AH

The CSFI has room for the odd secondee or intern - not much (if any) money involved, but we can offer what amounts to a crash course in the main issues that are bothering the City.

We have just published our Annual Report for 2002-03 (rather late, I am afraid); if you haven't received a copy, but would like to, please give Fleur Hansen a call. Two messages came through loud and clear:

- Last year was the busiest we have ever had. Over the course of CY 2002, we held 51 round-tables, and published nine reports and one book. This is a pretty daunting workload for a tiny staff, and I want to pay tribute to Alexander Evans (who was our director of studies until November) and to his successor, Fleur. Alex (who left us to join the *Portillista* Policy Exchange) has now moved on to the Foreign Office.

- Partly as a result of this increased workload (everything we do costs money) and partly as a result of the much less benign financial climate in the City, our financial situation is not quite as healthy as I would like. We still have cash-at-bank sufficient to cover about 6-7 months' expenses, and we haven't got the slightest intention of cutting back the work programme; but it has become noticeably harder to shake even modest amounts of fruit from the City tree. We are not alone in this – and we are better off than most since our funding comes from so many different sources. But a small plea is in order: it is in more difficult times that the Centre ought to come into its own. When reviewing or renewing your support, please bear in mind that, when things are tough, the "thinking space" that the CSFI tries to provide is doubly important.

The Annual Report is also an opportunity to thank the chairman of our Governors, Sir Brian Pearse, the chairman of the Trustees, Minos Zombanakis, and the chairman of the Advisory Council, John Plender. We really appreciate their help and advice. It also gives us a chance to welcome on board two new governors – Angela Knight, chief executive/dominatrix at APCIMS, and Richard Lambert, former editor of the FT and currently a member of the BofE's MPC. We are very grateful that they have both agreed to join us.

10th Anniversary

In March, the Centre celebrated its 10th anniversary (actually, we think we started holding round-tables at the end of 1992, but legally we were set up in February 1993). Thanks to the generosity of EFG Private Bank and Pearson, this was a rather grand affair. It also included a keynote speaker – Jerry Hawke, the (iconoclastic) Comptroller of the Currency in the US. Hawke gave a typically hard-hitting speech, which made a couple of very generous references to Charles Taylor's recent paper on Basel 2. It would be reasonable to say that, as someone who actually has to put supervisors in to banks to make sure they are abiding by the rules, he is not wildly enthusiastic about Basel. Let's hope that we can make a habit of attracting speakers of Hawke's calibre.

Jerry Hawke & Tattersall

Angela Knight

John Plender and Jonathan Barber

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