



“ACIIA sincerely extends a message of sympathy and support to Japan, struggling to recover from the deadly March 11 earthquake, tsunami and nuclear crisis.”



## Magnitude 9.0 Quake, Tsunami and Nuclear Crisis – CIIA Final Exams

On Friday 11th March 2011 at 02:46:23 pm, a mega earthquake, the most powerful ever to hit the country, struck the Tohoku region in northeastern Japan, producing a huge tsunami that swept away towns and flooded farmland, and setting off warnings as far away as the West Coast of the US and South America. As Japan struggled with rescue efforts, it also faced a nuclear emergency – explosions and leaks at four reactors at the Fukushima Daiichi Nuclear Power Station.

More than 25,000 people are dead or missing, and also many towns completely lost. In the Tokyo metropolitan area, all trains and subways stopped after the earthquake though some were restored late at night.

SAAJ appreciated receiving a lot of kind and warm messages of sympathy throughout the world. The following day, despite some difficulties, CIIA final exams were conducted in Tokyo and Osaka. In Tokyo, due to traffic problems, some candidates arrived late and hence SAAJ staggered the starting time so that eventually there were five groups of candidates sitting. Even so, the participation rate was less than 40%. Because of the extraordinary circumstances, SAAJ will refund all exam fees to the candidates living beyond central area Tokyo and who could not sit the exam, but it will not request ACIIA to refund the same. SAAJ will conduct the September exams in both English and Japanese though September exams are normally only in English.

### Donations to assist earthquake victims in Japan

SAAJ, a not-for-profit organization, is collecting donations from corporations and individuals for victims of the Great Tohoku-Kanto Earthquake and Tsunami that hit Japan in March 2011. This is in addition to a donation already made by SAAJ and board/staff. Donations received will be distributed to the local governments of the most seriously damaged prefectures (Miyagi, Iwate, and Fukushima) and the Japanese Red Cross Society.

To make a donation, please access the link below:  
<http://www.saa.or.jp/english/index.html>

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## 2nd SAAJ International Seminar held on 17th & 18th February

JAPAN

SAAJ successfully held the 2nd International Seminar on 17th and 18th February 2011 at Gakushikaikan Hall with the support of ACIIA (Association of Certified International Investment Analysts), ASIF (Asian Securities and Investments Federation), and EFFAS (European

Federation of Financial Analysts Societies). Over 80 investment analysts participated.

On the first day (lecture session), under the theme of "Exploring New Investment Strategies in a Paradigm Shift", prominent speakers from

around the world presented investment strategy for the long term following lessons learned from the global financial crisis, and also the recent trends regarding target risk allocation and strategies of US institutional investors. Views were exchanged with panelists con-

cerning new development strategies at investment management firms from a global point of view. On the second day, participants held a group discussion on a case study entitled "Building portfolios focusing on risk management relating to the rise of emerging countries". ●

### PROGRAM

#### Thursday 17th February 2011

- 09:00 Registration  
09:30 Welcome and Opening Remarks
- 09:40–11:00 **Session 1**  
*Rebuilding the Investment Strategy for the Long Term: Lessons from the Global Financial Crisis*  
**Arjan Berkelaar**  
Head of Asset Allocation and Risk Management, Kaust Investment Management Company
- 11:10–12:30 **Session 2**  
*Recent Trends, Post Crisis, on Target Risk Allocation and Strategies by U.S. Institutional Investors*  
**Robert Capaldi**  
Managing Director and Senior Client Strategist for the Chairman and CEO, BlackRock
- 13:40–15:00 **Session 3**  
*How Will the Rise of Emerging Countries Change Global Diversification in Investors' Portfolios?*  
**Hiroshi Goto, CMA**  
Director – Strategic Solutions, AllianceBernstein Japan Ltd
- 15:20–17:20 **Session 4 Panel Discussion**  
*New Development Strategies of Investment Management Firms from a Global Point of View*

#### Panelists:

##### Robert Capaldi

Managing Director and Senior Client Strategist for the Chairman and CEO, BlackRock

##### Akio Ohtsuka

Senior Executive Officer and CEO of Fiduciary Services Business Division  
The Sumitomo Trust & Banking Co., Ltd

##### Daisuke Toki

Co-President and Representative Director, Goldman Sachs Asset Management Co., Ltd

#### Moderator:

##### Sadayuki Horie

Senior Researcher, Financial Technology & Market Research Department, Nomura Research Institute

#### Friday 18th February 2011

- 13:00 **Session 5 Case Study** (Language: Japanese only)  
*Building Portfolios Focusing on the Risk Management on the Rise of Emerging Countries*  
**Yasuyuki Kato, CMA**  
Managing Director, Mountain Pacific Investment Advisors  
Visiting Assistant Professor, Kyoto University Business School
- 13:00–15:20 **Group Discussion**  
Equity investment in emerging countries from the points below:
- Evaluation of tail risk for equity market in emerging countries
  - Risk management of investment in emerging countries and building benchmark portfolio
  - Measurement of equity asset allocation in emerging countries
- 15:40-17:50 **Session 8 – Case Study: General Discussion**

\*Simultaneous interpretation in Japanese and English will not be provided in case study session.



## SAAJ recognized as ‘Public Interest Incorporated Association’ from April 2011

SAAJ, a not-for-profit organization, has been a ‘incorporated juridical body’ since foundation and enjoying the status of a non-taxable body.

In June 2006, the ‘Act on Authorization of Public Interest Incorporated Associations (PIIA) and

Public Interest Incorporated Foundations (PIIF)’ were newly enacted in Japan, which recognizes PIAs and PIIFs as non-taxable bodies/foundations. Current incorporated bodies or juridical foundations wishing to obtain license as a PIIA or PIIF have to submit the appropriate applica-

tion to the authorities by November 2013. The most important criterion for obtaining a PIIA/PIIF license is that the entity must be not only operating for the purpose of “contributing to enhancing the interest of a large indefinite number of people”, but also having a character of public-interest.

SAAJ successfully obtained a license from the Prime Minister as a “public interest incorporated association” in March 2011 after the severe reviews and its new status is effective from 1st April 2011. ●

## Another classroom course starts in Tokyo



SAAJ has for a long time provided CMA candidates with correspondence courses to enable them to acquire the professional knowledge and skills necessary for securities analysis and since 2005 has offered ‘CMA Primary Educational Program’ and ‘Basic Modern Portfolio Theory’ classroom courses aiming at

helping candidates study more efficiently. A new course, ‘Basic Derivatives’ was launched on 5th and 19th February 2011 with 5 hours each (in total 10 hours). About 100 candidates and/or CMA holders (wishing to review the subjects) participated and more than 95% responded “satisfactory” in a questionnaire. ●

## Conference on Intangible Assets

FRANCE

The French Society of Financial Analysts SFAF, is convinced of the importance of intangible assets. It has been active in this field for several years through the work of its members and commission on Intellectual Capital as well as through the «Analyse financière» quarterly publication.

The first annual conference on intangible assets, jointly organized by SFAF and AGRION in March 2011 focused on several key subjects such the importance of various intangible assets in Corporate valuation, the ways of developing intangible assets and related subjects

such as European strategy and fiscal incentives.

The debates covered the evolution of practices, methods and technical devices used to value intangible assets as well as the extra-financial valuation of trademarks, patents, industrial

risk, the capacity to innovate, organizational efficiency, work atmosphere, customer satisfaction and human capital.

During this successful event which was hosted by the French Ministry of Economy and Finance in Paris and which brought together over 120 professionals, a representative panel of speakers and experts from the academic, professional and government world tried to answer these key questions.

SFAF hopes that this conference which will become a regular yearly event, will help promote a frank exchange of views on the subject and enable a better understanding of the preoccupations, interests and strategic issues related to the valuation of intangible assets. ●



## Family savings in Spain 2010

SPAIN

The Foundation for Financial Studies presented the study "Family savings in Spain"; its purpose being to identify the prospects in the short to medium term and to analyze its effects on financial products adapted to the new reality of savings. The presentation ceremony was closed by Mr. José Manuel Campa, Secretary of State for Economy.

The work was led by Mr. Domingo Garcia Coto, Director of Research Department of the BME and had many partners from the academic and professional world who offered a complete view of the matters discussed on savings from different viewpoints.

The main finding is that domestic savings is seen as the key to the economy in the coming years; so much that Spain could find that savings is the solution to reduce its dependence on foreign financial products.

### Observatory of the European Financial Market Reforms 2010

The Fundación de Estudios Financieros (FEF) presents the fifth annual study by the Observatory on the Reform of European Financial Markets. This Study aims to analyze and eval-

uate on a regular basis, the reform led to the integration of financial services in Europe. Participating in the presentation ceremony which was held on 27th January 2011, were Mr. Miguel Boyer, former Minister of Economy, Finance and Commerce, and Ms. Nadia Calvino, Deputy Director General of DG Markt, European Commission.

The Observatory has focused on the evaluation of the new regulatory agenda that emerged from the economic and financial crisis and the situation experienced by the market turmoil. In particular, it considers the various progresses towards the new European financial supervision model, recent measures to strengthen the solvency and liquidity of credit institutions, regulation of hedge funds and regulatory initiatives by credit rating agencies.

It also includes other issues that need further harmonization to achieve the objective of the single European financial market. Among others, those relating to the initiatives of the European Commission to: (i) regulating certain aspects of OTC derivatives, (ii) improving transparency in procurement centres, and (iii) limit the possible negative



Director and General Manager Nordkapp Ramiro Martínez-Pardo, Chairman Corporación ISSOS Miguel Boyer, Chairman of FEF-IEAF Juan Carlos Ureta, Deputy Director General-DG Markt EU Nadia Calviño, Director of the Institutional Advisory Department and Deputy Secretary to the Board of Directors Banco Popular Francisco Javier Zapata

effects of short selling on price stocks.

Finally, the study updates for the third consecutive year, with data from 2009 and the early part of 2010, the report by the Instituto Valenciano de Investigaciones Económicas (IVIE) "Indicators of Financial Integration European" whose purpose is to assess the progress towards the single financial services market and its effect on economic development.

### Seminar IEAF-ACIIA: "Financial Planning: Benefitting the client. What about profit?"

On 23rd March 2011, the IEAF Spain offered a new Seminar free of charge to CIIA holders, which was held in English, in Madrid.

This Seminar: "Financial Planning: Benefitting the client and what about profit?" was presented by Otto Lucius, Chairman of FPSB Austria and EFPA Austria.

This seminar could also be accessed through our platform web TV.

We invited our colleagues in EFFAS to connect to the Seminar as well as some institutions that collaborate regularly in training programs with our training school.

The seminar will be available "on demand" until the end of April.

### Visit of Jesus Lopez Zaballos to Portugal

On 24th February and invited by the Chairman of APAF, Raúl Maqués, Jesus López Zaballos travelled to Lisbon to attend the APAF Annual Convention.

This event took place at the Cultural Centre of Bethlehem in Lisbon and following the Opening Session which was made by Raul Marques, there was a conference given by Carlos Costa, Governor of the Bank of Portugal titled "The Future of Portuguese financial system".

Mr. Lopez Zaballos also took the opportunity to talk with some members of APAF Council about the possible incorporation of this Association to the ACIIA.



Chairman of FEF-IEAF Juan Carlos Ureta, Secretary of Estate of Economy José Manuel Campa, Director of BME (Madrid Stock Exchange) Domingo García Coto

# Hwang Kun-ho elected Chairman of the International Forum for Investor Education

KOREA

Hwang Kun-ho, Chairman of the Korean Certified Investment Analysts Association KCIAA and the Korean Financial Investment Association KOFIA, was elected Chairman of the International Forum for Investors Education IFIE during the third joint Investors Education Conference of IFIE and the International Organization of Securities Commissions IOSC held in Cairo, Egypt, on 8th and 9th November 2010.



KCIAA Chairman Hwang Kun-ho

IFIE is an alliance where private and public sector providers of investor education aim at improving global standards in the field. It was chartered in 2005 and currently boasts 50 securities-related institutions in about 30 countries as its members, along with two subcommittees - one for Asia AFIE and one for the Middle East and Africa MENA.

Chairman Hwang's election is viewed as the result, on the one hand, of the wide recognition of his achievements in promoting investors' education at home and abroad as well as his indisputable leadership qualities as the head and host of numerous prestigious institutions and forums. On the other hand, South Korea is well-acknowledged for its enhanced status in the international capital market, especially considering the G20 summit held in Seoul last November. During his two-year Chairmanship, Mr. Hwang plans to work towards transforming IFIE into the leading organization of global investor education. With his appointment, Korea has become the first country outside the USA to take the initiative in global investor education thus its position in the international capital market is expected to be further strengthened, giving domestic financial institutions easier access to overseas markets. Last but not least, in his acceptance speech Chairman Hwang pledged to extend the scale and scope of IFIE by providing membership to organizations that operate in fields, other than securi-

ties such as asset management and futures, and by encouraging the establishment of new IFIE regional subcommittees, particularly in Latin America and Europe.

## CIA Membership Award Ceremony

The Korea Certified Investment Analysts Association (KCIAA) held its 2011 Certified Investment Analysts (CIA) Membership Award Ceremony on 10th February 2011. It was attended by the KCIAA board members as well as the seventeen candidates who, out of a total of fifty-three, successfully passed the CIA examination last November.

Before taking the exam, the candidates were required to sit for the Certified Research Analysts (CRA) examination in August 2010. Out of 1,522 applicants', 371 passed.

At the ceremony, KCIAA Chairman, Mr. Hwang Kun-ho, congratulated them for the successful performance, emphasizing the importance of their continuous efforts towards enhancing their professionalism and leadership qualities.



Dong-il Shin

## A High School Student Tops Investment Analyst Examination

On 10th February 2011, the Korea Certified Investment Analysts Association (KCIAA) announced that Dong-il Shin, a sixteen year old high school student, passed the Certified Investment Analysts (CIA) examination held in November 2010.

It is recognized as one of the most difficult tests that are required for securities-related professionals in Korea. Not only did the student pass the exam, but he scored highest among all the candidates, which as he said was a great honour.

Prior to that, Dong-il passed the Certified Research Analysts (CRA) exam, which is the necessary eligibility prerequisite for the CIA examination. Back then he was in junior high school which makes him the youngest test-taker. Dong-il is also the youngest candidate to pass the futures traders exam. He has prepared for all these during his spare time after school.

He said he personally started investing in securities and futures as early as junior high school in order to obtain practical experience for real investments. Dong-il's next target is obtaining the CIIA diploma in his pursuit of a future professional career as a specialist in a global corporation.



# 1st edition of the World Pensions & Investments Forum held at the OECD

EFFAS

The first edition of the World Pensions & Investments Forum was held at the OECD Headquarters on 10th December 2010. This institutional event was organized jointly by the Organisation for Economic Co-operation and Development (OECD) and the World Pensions Council (WPC).

EFFAS was a supporting partner along with Global Pensions and Morningstar. Sponsors were Allianz Global Investors, BNP Paribas Investment Partners, Edmond de Rothschild Asset Management and Société Générale Cross Asset Research. The next Forum will take place in October 2011.

## **“Building bridges between the academic world, government agencies, pension professionals and asset managers”**

There were approximately 120 participants. Of those were representatives (heads of investments, chief trustees) of some of Europe’s leading pensions funds, caisses de retraites and insurance companies and delegates from North American and Asian financial institutions, policy makers, central bankers, regulators and researchers.

The opening remarks were made by Adrian Blundell-Wignall, Deputy Director in the Directorate for Financial and Enterprise Affairs, Special Advisor to the Secretary-General on Financial Markets, OECD and Giampaolo Trasi, Chairman of the European Federation of Financial Analysts Societies (EFFAS) and Head of Equity & Credit Research at Intesa Sanpaolo Group.

The different round tables covered some of the main issues concerning pension funds:

- The changing role of pension regulation

- Advanced asset allocation modeling
- The rise of environmental, social, and governance issues
- Pension risks

## **The main conclusions of the conference were the following:**

Dr. Van Nunen’s critical assessment of the “Dutch model” focusing on the negative investments outcomes of recent regulatory reforms that forced pensions to strictly match assets to liabilities drew a lot of attention. He argued that, although motivated by the best of intentions, the regulator had lost Holland’s pensions industry 15% of its assets in the past two years by trapping pension funds in “an assets-destroying circle”, in essence, by imposing arbitrary bonds-based risk metrics forcing them to sell long-term assets such as equities at the worst possible time, thus locking thousands of future Dutch pensioner into poverty.

Dr. Van Nunen insisted that “it is not the duty of pensions to hedge liabilities- especially not when liabilities are calculated incorrectly. Risk, not money, is the only ‘asset’ a pension fund has at its disposal”.

## **Governance was also a key topic:**

Dr. Catalán of the International Monetary Fund laid the ideal (some thought idealist) case for increased pensions involvement, arguing that, moving forward, to avoid a “stagnant and segmented financial world” scenario characterized by insufficient capital flows toward emerging economies with ‘delayed’ population aging whereby the ‘saving glut’ is resolved sub-optimally within the group of large economies with ‘advanced’ population aging (low returns on investments across the board plus more world

poverty), Western and emerging economies had to collaborate (international policy coordination) and work on improving accountability and governance in the developing economies of Asia and Latin America and enact bold pension and fiscal reform plans in Europe, North America and Japan.

Dr. Cairns of the Maxwell Institute/Heriot-Watt University (Edinburgh) insisted that longevity risk constitutes by far the most significant source of risk after inflation and inflation hedging, and that, unlike interest rates and inflation risks, longevity shocks persist over time. Until 2005, there was a generally poor understanding of the real nature of longevity risk and a lack of reliable modeling to measure that specific risk, and, correlatively, a lack of sophisticated financial and legal instruments needed to hedge it properly. Dr. Cairns argued that “*companies with a commitment to quality DB plans will eventually need to develop longevity risk sharing benefits and described the kind of innovative solutions that could offer the required level of hedging for longevity risk in the future, focusing on customized longevity swaps and index-based longevity hedges (both embryonic markets).*”

Dr. Antolin, Principal Economist, Financial Affairs Division, OECD, noticed that the OECD was set to launch a longevity risk research project in early 2011, focusing notably on the required regulatory frameworks and the creation of robust life expectancy indices, thus filling an important gap in the field of longevity risk management.

**The World Pensions Council (WPC) – a Paris-based non profit organization.**

It is a think-tank dedicated to innovative research and analysis that helps strengthen and disseminate academic and professional research on a wide array of pension related topics such as demographics, actuarial science and statistical methods, public and private pension policies, asset allocation, and pension fund governance.

Its founders felt the need to bridge the gap between the academic world of pensions and investment research and the ‘real world’ (fund managers, pensions executives and trustees). They believed that a pragmatic, multifaceted approach could foster national and cross-border cooperation between all pension stakeholders by helping both scholars and practitioners to develop new interdisciplinary research projects, and thus build bridges between the academic world, government agencies, and multilateral organizations, as well as pension professionals and investment experts from leading public and private institutions. The World Pensions Council came out of this reflection.

Therefore, the goal of the World Pensions & Investments Forum is to serve the dual purpose of providing a platform for networking and exchanging ideas between leading academics, pension professionals, policy makers and fund managers, as well as showcasing research advances that will benefit the investment community at large.

*Vincent Bazi, Deputy Chairman of SFAF and EFFAS, President and cofounder of WPC*

*Nicolas Firzli, Member of SFAF Managing Director and cofounder of WPC*

# EFFAS Summer School 2011 to be held in The Santander Financial City

Boadilla del Monte, Madrid, Spain on 13th July – 15th July 2011

To enhance the networking between existing EFFAS designation holders, CIIA candidates and other investment professionals, EFFAS with the support of the Banco Santander, is organising the fourth EFFAS Summer School in Madrid, in the Santander Financial City (Boadilla del Monte – Madrid), starting on Wednesday 13th July and finishing on Friday 15th July 2011.

The attendance of participants, as well as professors and lecturers from various national associations gives the EFFAS Summer School a truly international character.

There will be simultaneous plenary sessions and workshops, lectures on current topics of interest will be given by professors and experts from various

industry sectors. The Summer School is relevant for all investment professionals; it is also relevant for the various EFFAS and ACIIA designation holders and is also addressed to potential candidates for the CEFA, or the CIIA designation, or potential members of the respective national organisation.



# The stakeholders of the Certified Securities and Investment Analysts profession meeting

KENYA



CEO of Nairobi Stock Exchange  
Peter K. Mwangi

As guest speaker, Mr Peter Mwangi attended the inaugural meeting of stakeholders of the Certified Securities and Investment Analysts (CSIA) profession on 4th March 2011. Students, graduates, members of ICSIA, other professional bodies, industry, training institutions, government ministries and departments also attended.

## The following is an extract from Mr Mwangi's speech.

"The CSIA is one of the professions examined by KASNEB. Since its establishment in 1969, KASNEB has continued to maintain and promote a reputation for high quality standards in professional examinations. For this reason, graduates of the exami-

nations of KASNEB are widely recognised and highly rated globally.

The CSIA professionals are experts in the financial and capital market operations, financial analysis, investment and securities, retirement benefits and investment banking.

KASNEB revised the syllabus for the CSIA examination in 2009 following a benchmarking exercise against other world class institutions that offer financial and investment analyst certification. The CSIA graduates are well equipped to compete with the best in the world.

The finance and investment sector is developing very rapidly and opening up many new opportunities. At the same time the sector is experiencing many challenges revolving around professionalism and ethical behaviour. The recent financial turmoil in most parts of the world raises numerous questions on the role, performance

and ethical standards of investment professionals.

At a national level the attainment of the objectives of Vision 2030 will require mobilisation of domestic capital for long-term investment in all sectors of the economy. This will present enormous opportunities for CSIA graduates. One particular aspect highlighted as an example is the challenge arising from the creation of a devolved system of government following the promulgation of the new Constitution.



This will necessitate the raising of capital by the 47 Counties and the CSIA professionals will be expected to play a leading role in this effort.

The new Constitution stipulates that 15% of total revenue every year must go to the county governments and another 0.5% to the Equalisation Fund for marginalised communities. However, the allocation of revenues from the central government as stipulated in the Constitution is not sufficient to fund the opera-

tions of the counties. This raises fundamental questions:

- What will it cost to put in place the infrastructure and administrative structures for a devolved government?
- What will it take to provide basic services in the country's poorest regions?

The financing needs are enormous. Massive capital outlays will be required to fund infrastructure development and meet operational expenditure. Each county will have to rise to the challenge of making its population and region more productive and encouraging local and foreign investors. Innovative financing solutions will be required.

These challenges will only be met by the full engagement of appropriately qualified professionals in finance and investment who not only possess cutting-edge knowledge and skills but are also of unquestionable integrity.

To date KASNEB has certified about 300 such professionals

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who are serving in various capacities. However, a review of job advertisements placed in the media for positions in finance and investment reveals a low level of market awareness of the existence of these professionals. This is one reason why we are gathered here today to deliberate on ways of developing and promoting the CSIA profession locally, regionally and internationally. Our endeavours to promote the CSIA profession to become a powerhouse in Africa,

must start with the CSIA graduates themselves playing an increasingly prominent role.

The Institute of Certified Securities and Investment Analysts (ICSIA) has joined the membership of the Association of Certified International Investment Analysts (ACIIA) in order to promote the CSIA profession globally. Modalities are being explored to facilitate mutual recognition between members of ICSIA and members of ACIIA. This is a welcome development, but one which should be han-

dled with care to ensure that it is in harmony with the objectives of the CSIA profession.

The role played by training institutions in the promotion of the CSIA profession, as in any other profession, is critical. In this regard, KASNEB has, with effect from this year, introduced accreditation of training institutions in order to ensure that the institutions meet certain minimum standards which are aimed at assuring students and their sponsors of high quality tuition. KASNEB will also publicise and promote

the accredited institutions. I am confident that from today, we will witness a growing number of advertisements for finance and investment positions requiring applicants who possess the CSIA qualification.

Mr Mwangi concluded that KASNEB would launch a CSIA Alumni and students association which will provide a forum for networking and sharing of information. They will also be instrumental in advising KASNEB and ICSIA on matters of interest to the profession". ●

## An interview with CIIA® holder Mr J B Ram

INDIA



CIIA holder J B Ram

Mr J B Ram is a Senior Vice President – Multi Commodities Exchange India Ltd (MCX). He was previously associated with Securities Exchange Board of India (SEBI), Central Depository Services Limited (CDSL), Unit Trust of India (UTI) Mutual Fund, and Edelweiss an integrated investment firm. He completed his CIIA in the year 2008.

**ACIIA News:** You topped up your university education with the professional qualification CIIA. What is the value addition you gained?

**Mr J B Ram:** I found tremendous value addition. CIIA gave me the international perspective of Finance and Securities market and deep understanding of hedging mechanism by deployment of Future and Options.

*Apart from being an alumnus of reputed institutions, you have*

*been associated with governance of academic bodies. With the benefit of such exposure, how do you see academia playing a role to improve ethics in market operations?*

Events of 2008 and excesses committed in boom era has brought out the importance of ethics in securities market and the various conflicts of interests and insider trading situations which were kept under wraps. We have heard the Abacus story on issues of conflicts of interest of client's vis-à-vis that of propriety when actively trading. The episode does not fit into the traditional definition of front running but still appears suspicious and involves conflicts of interests. The Rajratnam and Gallion episode is a pointer towards insider trading. Remuneration structure prevailing in the industry pre-2008 is believed by certain circles to have led the firms to take a short-term decision which often compromised long-term viability.

The market failure of 2008 also exposed the weak foundations of some of theoretical under-

standing in applied finance. One example which readily comes to my mind is the assumption of self-correcting market. In distress situations like what happened in 2008 after an extraordinary failure of Lehman Brothers, markets of credit default swap (CDS) and money markets among others stopped functioning for a while and did not restart without the extraordinary push from Central Banks and Governments. Today many sovereign governments

**Black Swan like events are happening more frequently than is expected theoretically.**

which tried to bail out the failing banks are themselves failing. The assumption of low correlation between Emerging and Developed markets looked suspicious as crises from the US spread to rest of world very quickly. Black Swan like events are happening more frequently than is expected theoretically.

In this environment, academia is well suited to examine various basic issues currently troubling the industry such as remuneration structures and ethical standards. Incorporating long term goal with remuneration structure could be one of the objectives of such studies. Un-

derstanding the functioning or non-functioning of markets under extreme stress situations could open new avenues of learning. Finance could become more fascinating with more participation of academia.

*India is largely rural and agricultural where as professional and corporate bodies are city-based. In that scenario, where does the work of investment professionals like you and organizations like the one you work for come in to benefit farmers in terms of reach and access?*

Future and Options are ways to mitigate risks. India is still an agrarian country in the sense that approximately 16% of gross domestic product (GDP) comes from agriculture and about 60% of population depends on it directly or indirectly for livelihood. As an investment professional I understand the importance of liquid market and options and future as risk hedging instruments. Therefore, the endeavour has been to increase the reach of the electronic market so that the farmer is assured of the prices of input and output for better planning and assured outcome in an otherwise uncertain environment. I believe the availability of liquid markets for

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various input and output materials along with certain path breaking policy initiatives, would usher in an era where every farmer would be an entrepreneur. Similarly in the manufacturing space, the exchange platform, by continuous process

of pricing of future availability of various inputs, has considerably brought down the need to build the high inventory levels and thereby improved returns on employed capital.

The active market in futures of gold and silver on the other hand has provided a safe haven

for investment in an uncertain environment when US Dollar and Euro, among other global currencies, suffer the prospect of the trend of depreciating values in coming times.

*What are your thoughts on the future of commodity futures in India? What does it mean for in-*

*stitutions which train investment professionals?*

World wide, Commodity futures markets are many times that of corresponding Equity market. I expect the same trend to appear in India. The growth of Commodity markets is likely to increase the requirement of investment professionals in near future. ●

## Career talks on campus 2011

HONG KONG

To groom the young entrants of the Industry, the Hong Kong Securities Institute organised a number of Career Talks on campus at different local universities to give an overview to the students of the financial industry so that the students could better prepare themselves for the industry. This year, a senior HKSI member and Chief Executive, Mr S F Wong, shared their personal experiences in the industry with the students. Together with Mr S F Wong, Mr George Hongchoy, Dr Cynthia Lam, and Mr John Williamson gave a speech to students in the City University, the University of Hong Kong, and the Chinese University respectively.

With the strong support and valuable contribution of the members, the Talks were successfully held and feedback was positive; the Talks have been well received by the students and the universities.

### InvestEd Arena

The Securities and Futures Commission (SFC) of Hong Kong held a financial knowledge quiz (InvestEd Arena) in March 2011 and the HKSI is proud to be one of the supporting partners of the event.

Under the theme of "Know how new rules protect you as an investor", the three-part quiz seeks to raise awareness of new investor protection measures in relation to the regulation

and sale of investment products. In addition, the quiz also highlights the risks of financial investing.

As the supporting partner of the event, the HKSI contributed a group of questions as part of the quiz database. Moreover, Chief Executive of the HKSI, Mr S F Wong, was also invited to attend the Finale show and be one of the adjudicators.

"We are honored to support this event. We believe the HKSI, together with the SFC and other financial institutes, can help Hong Kong investors to learn more about investor protection."

### HKSI Signed MOU with the FIC on Training Programmes

In January 2011, the HKSI signed a Memorandum of Understanding (MOU) on "Securities Training Cooperation" with the Financial Institute of Cambodia (FIC). This has paved the way for further cooperation between the two organisations.

As professional bodies in the industry, both the HKSI and the FIC recognize the importance of continuous education and training for practitioners in the finance and investment field. The trend of globalisation calls for a higher level of cooperation and mutual understanding among different markets. Therefore, the commitment from both organisations signifies a concrete step



Students seeking advice from Mr George Hongchoy (second from left)



Dr Cynthia (left) presenting student with prize



Souvenirs presented to Mr John Williamson (left) and Mr S F Wong (right)

forward in fostering closer cooperation between the professional bodies from the two markets.

Chairman of the HKSI, Mr Anthony Muh, said, "We are pleased

to sign the MOU with the FIC. The signing ceremony has marked the beginning of a new phase to promote sharing of market experiences and best practices among the professionals from two sides." ●

## Exchange Traded Funds: Changing investing landscape, globally

Exchange Trade funds (ETFs) and Exchange Traded Products (ETPs) are some of the more innovative new financial products to emerge from the financial industry in the last two decades, since the launch of first Exchange Traded Fund in the US around 1993. The challenging market condition of 2007-2008 caused a significant shift in investors risk appetite in the evaluation of counterparty risk and their desire for liquidity. The providers of ETFs have continued to expand their product range with increasing demand from institutional and retail investors in the area of Equities, Fixed income, and alternatives. The popularity of the product can be ascertained by the fact that the assets have grown at a compound annual growth of 39% for the last decade surpassing assets under management (AUM) of US \$1.4 trillion. They have opened a new era of investment opportunities and have allowed investors to gain a broad exposure with relative ease, transparency and lower cost. ETFs are like open ended funds that provide daily portfolio transparency, listed and traded on exchanges. Exchange traded products is a wider definition similar to ETFs in the markets, but do not use Mutual fund structure, however, we have used this interchangeably in order to make readers familiar with the larger picture.

There are close to 168 providers having more than 3,500 products and 7,300 listing across 50 exchanges and numbers are growing as we read this article. The top 3 providers (i share, Vanguard and SSGA) accounts for more than 70% of market share while the top three funds account for 16% of the market share. While ETF assets have

nearly doubled since early 2007, ETF trading volumes have quadrupled during this span due to increased trading velocity (led by the popularization of leveraged ETFs). Today, the ETP assets are distributed predominantly in equities 75%, fixed Income 14.7% and commodities 9.6% of the total ETFs assets. The currency, multi assets have negligible presence, currently. ETFs have found favour among both retail and institutional traders as a means of expressing short-term views in addition to offering investors an investment vehicle with a low fee structure and potential tax efficiency advantages. In the past three years, ETF volumes have grown at a 60%

CAGR, compared to 17% annualized growth for the U.S. cash equities. One of the biggest draw in favour of Exchange Traded Products is the saving in expenses it offers in comparison to products. The equity and fixed income ETFs have a fee of around 30 bps and 18 bps in comparison to 100 bps and 18 bps for traditional equity and fixed income products. Moreover, ETFs are bought on a commission basis just like any other shares or funds, purchased on margin, lendable and do not have sales load. If you think the existing fee structure on ETPs are high for you then you may not be in for a surprise by hearing that Charles Schwab, a broker in the US has gathered ETF assets of more than \$1.4bn this year after it fired the first salvo

in a price war with the launch of eight funds which investors could buy free of dealing charges. Schwab's move forced competitors to follow suit.

A detail study by Goldman Sachs on ETFs provides a good insight on evolution and growth of ETFs in the US and its impact on the US asset management industry. The passive fund management grew to account for 18% in 2009 of total funds under management from around 9%, a decade back. While ETFs have taken its



Manish Bhandari

initial market share from passive fund management accounting around 16% in 2001 now they account for more than 50% of the passive fund strategy and accounts for 9% of total asset management. However, the fee contribution at \$1.6 billion per annum from ETFs is quite low in comparison to the fee from traditional asset management market of \$17 billion per annum. While considering, the annual growth projections of more than 30% for the next one decade, it is a certainty that revenue from ETFs will grow while making a dent on the revenues of the traditional fund management as well as broking industry, which has thrived on active fund management. It is worth while discussing gold ETFs, interesting insight they provide on how investments are shaping with advent of ETFs. The ETF hold more than 2000 tonnes of gold, the sixth largest reserve in the world, amounting close to \$100 billion next only to countries like

France, Italy and institutions like IMF. Considering the state of ballooning sovereign debt, as well as, wider acceptance of ETFs by investors in the emerging markets gains ETFs, investment in gold and other precision metals are going to increase, significantly. However, ETFs / ETPs do come with some inherent risk. One of the most prominent is the divergence of the fund vis-à-vis the underlying commodity, also known as tracking error. Assuming that the ETF invest is a particular commodity by investing in the future contract the cost of rollover in the case of contango or backwardation can create a significant high tracking error for the fund. ETFs also carry label risks where the nomenclature of the fund may be different from investment made by the fund. Investors should also know that all the ETFs are not taxed the same as few of them carry counter party risk to banks. Indian investors have limited choice at home but they can invest abroad two hundred thousand limits per annum per individual. This opens a whole new investing world to them.

*Manish Bhandari,  
Managing Partner and CEO of  
Vallum Capital, an investment  
firm based in Mumbai* ●

## Forthcoming ACIIA CM and AGM in Dubrovnik

CROATIA



The main representatives from the ACIIA member associations will be present in Dubrovnik on Wednesday June 29th and Thursday June 30th to attend the ACIIA meetings. EFFAS representatives will also be present for the EFFAS AGM on Friday July 1st.

The 2 day meetings will include:

- Wednesday 29th, the meeting of the Board of the ILPIP followed by the ACIIA Council Meeting.
- Thursday 30th, the ACIIA Annual General Meeting. All events and lunches will take place at the Hotel Valamar Lacroma Dubrovnik.

EFFAS will also hold its Annual General Meeting on Friday 1st July at the Hotel Valamar Lacroma Dubrovnik.

On Thursday 29th, the Croatian Association of Financial Analysts HUFAs, will invite ACIIA and EFFAS representatives to a gala dinner in the "Langusto a la Carte" restaurant at the Hotel Valamar Lacroma Dubrovnik from 19:30. The hotel, which is not far from the city's enchanting old quarter is the largest conference and spa hotel in Dubrovnik and is an astounding model of 'arch-nature' – a harmony of 21st century styling in a gorgeous natural environment.

Dubrovnik, known as the "Pearl of the Adriatic" with its magnificent curtain of walls surrounding marble streets and baroque



The Hotel Valamar Lacroma Dubrovnik

buildings is a mélange of cafés, shops and outstanding monuments at either end. Churches, monasteries and museums ornamented with finely carved stone recall an eventful history and a vibrant artistic tradition. Beyond

the city is a heavenly landscape of beaches, wooded peninsulas and a sea strewn with lush islands. The Croatian association is looking forward to welcoming delegates and sharing all that Dubrovnik has to offer. ●



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CIIA is recognised by regulatory authorities worldwide such as FSSC (Financial Services Skills Council) in the United Kingdom.



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## Agenda

### Events

#### Frankfurt Global Business Week

16 – 20th May 2011, Frankfurt

#### 4th DVFA Life Science Conference

17th May 2011, Frankfurt

#### XBRL International Conference

17th – 19th May 2011, Brussels

#### TBLI Conference ASIA

26 – 27th May 2011, Tokyo

#### EFFAS Summer School

13 – 15th July 2011, Madrid

#### 9th DVFA Small Cap Conference

29 – 31st August 2011, Frankfurt

### Meetings

#### EFFAS EMC Meeting

19th May 2011, Amsterdam

#### ILPIP Meeting

29th June 2011, Dubrovnik

#### ACIIA Council Meeting

29th June 2011, Dubrovnik

#### ACIIA Annual General Meeting

30th June 2011, Dubrovnik

#### EFFAS Annual General Meeting

30th June – 1st July 2011, Dubrovnik

### CIIA Final Examination Dates

#### September 2011

Friday 16, in Europe, New York,  
South America and Africa

Saturday 17, in Asia

#### March 2012

Friday 9, in Europe, New York,  
South America and Africa

Saturday 10, in Asia



## ACIIA®NEWS

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