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AGENDA

FMOA CONFERENCE and AUSTRACLEAR USER GROUP MEETING

Friday, 7 November 2003

Hotel Inter-Continental, Wellington

9.45am - 10.00am **Registration/Morning Tea**

10.00am - 10.45am Role of the Overseas Investment Commission

*Steve Dawe
Reserve Bank of New Zealand*

11.00am - 11.45am Branding - What is it? Why do we have it and its Importance?

*Ian Christie
CEO, Saatchi & Saatchi*

12.00 - 12.50pm Lunch

1.00pm - 2.15pm Austraclear Users Group Meeting

2.15pm-3.00pm "New Clearing and Settlement Proposal"

Computershare Registry Services

3.00pm-3.15pm FMOA AGM

Chairman's Report
Treasurer's Report
Nomination of Committee

3.15pm - 3.30pm Afternoon Tea

3.45pm - 5.15pm "Biology of Success Part 2- Heart & Mind of Resilience"

*Dr Sven Hansen
The Resilience Institute Limited*

5.30pm - 7.00pm Drinks and Nibbles for Austraclear/FMOA members, operations and settlement staff at the same venue

Welcome to another issue of the semi annual FMOA Newsletter.

This edition welcomes the return of our guest writer, Razor Blade, who's informative and humorous articles will hopefully provide you all with some fun over the months ahead. We also have a topical article on Terrorist Financing, an update from Global Career Link in terms of opportunities in the UK Banking Market and our usual overview of the upcoming FMOA Conference.

At the conference, to be held on the 7th November in Wellington, we will again provide members with a variety of quality speakers and debate on market issues so I encourage all of you if possible to attend. Back due to popular demand is Dr. Sven Hansen, who spoke at the last Auckland conference and will extend his presentation around "Biology of Success". Many of you gave us feedback that you wanted to hear more from Dr. Hansen, so here is your chance! Also leading the guest speakers will be Ian Christie, the CEO for Saatchi & Saatchi, who will be speaking to us on the topic of "Branding - What is it, why do we have it, and its importance?" You will find details of the full agenda in this newsletter, and its looking like being one of our best conferences yet, so get in quick and register your interest.

We also have the FMOA AGM taking place at the conference, and we would love to have some nominations for new committee members. If you want to put something back into the industry, and enjoy being involved in organising market events, then this role is for you !! All members have been sent nomination forms, or you can register your interest by emailing .

There continues to be a fair amount of change going on in our industry at the moment, none more so than

the discussions about the future of Austraclear in NZ, and Clearing & Settlement services generally. We are all aware of the EXIGO product being rolled out in Australia by the Sydney Futures Exchange, which will replace the Austraclear Australian system. Everything is on target for a March 2004 implementation, and no doubt the SFE will want to look to the NZ market to see if there is an opportunity for the product to be available here. The RBNZ are also moving forward with their plans to upgrade the operating system for the Austraclear NZ system, and we await with interest the Computershare presentation at the Austraclear User Group Meeting which is titled "A New Clearing & Settlement Proposal". When you add in the fact that the RBNZ are considering their future role as a Registry & Paying Agent, we will undoubtedly face a period of change in this field. The key for the NZ Industry will be to ensure we maintain a cost effective and robust Clearing & Settlement system which also keeps pace with International trends, and clearly there are a number of options open to us. Whilst this provides us with a significant challenge, FMOA are happy to champion the cause on behalf of the industry, however we acknowledge that this will take a significant amount of input & co-operation by all involved, and is still very much in the infancy stage at present.

That about wraps things up from me, I hope you enjoy this newsletter and I look forward to seeing as many of you as possible at the conference on the 7th November in Wellington.

Kind regards,

Peter Thomas
Chairperson

LONGING FOR THE LONG TERM, By Razor Blade

The investment community is rife with great catch phrases which, while well grounded in theory, become victims of over zealous sales mantra. The two principal touchstones are the “need for diversification” and the “need to be in for the long term”. Unfortunately, these touchstones have been turned into millstones.

Firstly, diversification. The theory asserts that by diversifying your investment across a number of asset classes you reduce your risk, without materially altering your return. Great but consider one of the biggest investments that we make – our education. We don’t individually study to be a lawyer and herbalist and doctor and electrician and beautician and nuclear physicist all in one. (Note that politician isn’t mentioned in the list. There is no study required, just failure in any other category will suffice). Education is one area where the returns to specialisation are clear.

Investing can be similar. If you are a farmer or importer or retailer and know your business well, that is where the bulk of your investment will lie. If you are allocating 40 – 60 hours a week to making that investment work, is that not likely (we hope!) to deliver a better return than an investment to which you ascribe 5 minutes of your attention every three months and over which you have no control? Having control, focus, influence, time commitment and having someone (namely yourself) to blame for non-performance are factors underrated in the diversification literature. Sticking to your knitting should be one of the building blocks of investment.

Naturally, all your eggs should not be in the one basket. Further investment in the same sector (over and above your business) is likely to reduce your marginal returns. And if you want exposure to sectors or parts of the world in which you have little knowledge, then the no-brainer decision is to appoint someone who does have that expertise to manage your money. This can also be a good strategy for the masochistic-sadists amongst us. Investment advisers can deliver you pain through poor performance while you get someone to metaphorically kick for your troubles.

The second maxim, to invest for the long term, is based on a little truth and a little hoodwink. It’s certainly true that, like Lotto, you have to be in to win. In the 520-day bull market run from October 1998 to April 2000, the Nasdaq rose 256%. But if you missed the top 25 days, you would have dipped out on 240% of returns. However, if you believe a market is overheated and not value for money, then why not get out? You may be wrong and miss a couple of years of good returns, but at what risk? The key to any investing is investing where you believe there to be value and knowing when to take profit. As a youngster I learnt that if you buy a dog, no matter how much praying or time passes, it is likely to remain a dog and not turn into a pony.

There was no “long-term” for hula-hoops, bell-bottom trousers, mainframe computers, Milli Vanilli, internet startups with no underlying cashflow, the steam engine, communism, the Alliance Party, the Greek, Roman, Ottoman, nor British Empires. Naturally, some terms are “longer” than others are!

While not being an advocate of slavish devotion to the notion of investing for the long-term, I am a firm believer to looking into the long-term to give us a frame for our investment decisions. You could call it investing **in** the long-term rather than **for** the long-term.

Peering into the ether, I think there are two key long-term trends that will influence the world and investment markets over the next half century. These are population aging in the developed world and a reallocation of industrial production away from the old-world towards the developing world. It is these factors that will increasingly shape asset allocation decisions.

1. POPULATION TRENDS

The world population will be 50% larger in the next 50 years, and we’re not talking about American obesity. The United

Nations predicts that there will be 8.9 billion people in the world by 2050, up from around 6 billion in 2000. But the aggregates hide an interesting sub-story. Low fertility rates will see populations *shrinking* in many parts of the wealthy world. An aging and declining population will be evident in Japan before most. And the populations of the 27 countries that are expected to be members of the European Union in 2007 are predicted to fall from 482m to 454m (6%). Good news to some, there may be 12m fewer Italians in 2050 than currently, 3 million fewer Spaniards, and the population of Germany could conceivably shrink by half by the end of this century.

Aging wealthy populations who live longer will be a powerful dynamic. The Economist magazine reports that “In Europe there are currently 35 people of pensionable age for every 100 people of working age. By 2050, on present demographic trends, there will be 75 pensioners for every 100 workers; in Spain and Italy the ratio of pensioners to workers is projected to be one-to-one”. Europe’s population implosion, July 17th 2003’ In the same period, NZ’s population is expected to increase by about one third. The number of pensioners per 100 people of working age will increase from 18 currently to 41 in 2050, regardless of whether euthanasia is made legal.

2. WHERE PRODUCTION IS SOURCED

There is a massive and ongoing shift of where industrial and manufacturing production is being undertaken in the world. Factories are shifting from the old economies (e.g., the US and Europe) to the emerging economies (e.g., China, South East Asia, and to a lesser extent emerging Europe). Initially much of the investment in China was by multinationals, but increasingly it is Chinese home-grown investment. The lure of cheap land and labour is irresistible. An aging developed world will only exacerbate this trend. The region of the world that will have the young, educated populations will be predominantly Asia.

The result has been a surfeit of productive capacity in the world. As a prime example, capacity utilisation in the US manufacturing and industrial sector is currently a very low 74% (compared to a norm of around 82%). This global excess capacity has resulted in a world environment of very low pricing power of producers, non-existent inflation, and low interest rates.

INVESTMENT IMPLICATIONS:

What are the possible investment implications of the two juggernauts of population aging in the developed world and a shift of manufacturing capacity to the developing world?

In the developed world (e.g., Europe, US) good long-term sectoral exposures would be to age related sectors such as health, aged care, and the service sector in general. There should also be a strong focus on technology as reduced numbers of prospective workers will bid up wages and make greater use of technology even more compelling. Manufacturing sector investment exposure should be via Asia and, to a lesser extent, emerging Europe. But prospective members of the European Union (e.g., Poland, Hungary) look attractive in the near term as convergence trades.

Naturally, you should be well aware of the associated risks. In a world awash with mobile money, cash tends to flood into the latest hot area/story and can just as quickly flood out again as inappropriate investment is encouraged (e.g., Mexico, Russia, Asia). In emerging economies there is less political stability, less respect of property rights, and often-poor profitability despite massive investment (e.g., South Korea). And just as a company can be a star performer in a declining market, the strongest of sectoral trends will never rescue an investor from a poorly managed company.

A truism in investment is that you have to pay for quality advice and that advice is rarely worth as much as you pay. On that note, remember this article is for free.

INTERNATIONAL EFFORTS TO COMBAT THE FINANCING OF TERRORISM

International initiatives that are aimed at combating the financing of terrorism (CFT initiatives) were given increased impetus by the terrorist attacks against targets in the United States on September 11, 2001. Many countries have recently enacted laws aimed at combating the financing of terrorism. Although some of these laws have extraterritorial effect, particularly those of the United States, international cooperation is necessary if CFT initiatives are to work effectively across borders.

International organisations have contributed in this area. They have developed standards that can be applied internationally so that CFT initiatives would be more effective, and international standards can be used to encourage more effort from reluctant nations. The United Nations also has an important role to play, and the Security Council has adopted resolutions that contain CFT initiatives. Given that CFT initiatives are related to anti-money laundering (AML) initiatives for which the Financial Action Task Force (FATF) was responsible, FATF has developed CFT standards as an adjunct to its existing AML standards.

UNITED NATIONS INITIATIVES

The United Nations has developed a number of initiatives aimed at combating the financing of terrorism, although there are two principal initiatives. Pre-dating the 9/11 events is the International Convention for the Suppression of the Financing of Terrorism of 1999 (the Convention), and after the 9/11 events was the Security Council Resolution 1373 of 28 September 2001 (the Resolution). There have also been some other United Nations Security Council resolutions dealing with CFT issues, but Resolution 1373 is the single most important resolution.

The Convention is the only internationally significant anti-terrorist initiative to pre-date the 9/11 events focussing specifically on combating the financing of terrorism. The offence created by the Convention is that of providing or collecting funds that are to be used to carry out terrorism.

The Resolution places a formal obligation on all member states to implement its provisions. It contains no definition of terrorism, but calls on states (inter alia) to:

- prevent and suppress the financing of terrorism;
- criminalise the collection of funds for terrorism;
- freeze funds of terrorists and those who support terrorists.

FATF 8 SPECIAL RECOMMENDATIONS

FATF has developed a set of standards known as the FATF 40 Recommendations (which were recently updated), that are widely accepted as the leading international AML standards. There is international pressure on all states to comply with these standards, so the effective reach of FATF goes beyond OECD and FATF members.

In October 2001, FATF expanded its role beyond money laundering, to also include combating of terrorist financing. It published an additional set of recommendations on the financing of terrorism, known as the 8 Special Recommendations. The 8 Special Recommendations require members to do the following:

- Take immediate steps to ratify and implement the relevant United Nations instruments.
- Criminalise the financing of terrorism, terrorist acts and terrorist organisations.
- Freeze and confiscate terrorist assets.
- Report suspicious transactions linked to terrorism.
- Provide assistance to other countries' authorities for terrorist financing investigations.
- Impose AML requirements on alternative remittance systems.
- Strengthen customer identification in wire transfers.
- Ensure that entities, particularly non-profit organisations, cannot be misused to finance terrorism.

UNITED STATES INITIATIVES

The United States reaction to the 9/11 events included two principal CFT initiatives, both of which have significant implications outside of the United States:

- Executive Order 13224 of 24 September 2001, entitled Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit or Support Terrorism (the Order);
- Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act 2001 (the Patriot Act).

Executive Orders are legally binding regulations, made by the President of the United States, under powers granted to the President by the US Constitution and under specific US legislation. Executive Order 13224 declares a state of national emergency because of the threat of terrorism, and contains measures for dealing with that threat.

The Order names a large list of individuals and organisations as designated terrorists, and requires all persons subject to United States jurisdiction to freeze and block the movement of any assets held on behalf of a designated terrorist. The Order has extraterritorial effect. It prohibits all foreign third parties from assisting, providing material support, or associating with designated terrorists. It imposes financial sanctions against all foreign persons that support or otherwise associate with designated terrorists.

The significance of the CFT initiatives contained in the Patriot Act is that they have an extraterritorial impact. The Patriot Act authorises the imposition of special measures against foreign jurisdictions and foreign financial institutions that are considered to pose a money laundering risk. These measures include:

- additional record keeping and reporting of financial transactions;
- identification of foreign owners of accounts at US financial institutions;
- requiring foreign banks to identify their customers who transfer funds through an account at a US financial institution;
- requiring foreign banks to identify the customers who use correspondent accounts opened by foreign banks at US banks.

The overall effect of these measures is to require foreign banks doing business in the United States (and US banks with branches in other countries) to collect and disclose customer information to the US authorities. If businesses outside the United States don't have effective systems and procedures in place to investigate money transfers and customers, US institutions are prohibited by the Act from doing business with them.

NEW ZEALAND INITIATIVES

New Zealand has enacted CFT laws and is a participant in international CFT initiatives. The most significant legislation that covers CFT issues is the Terrorism Suppression Act 2002. The Act makes it an offence to finance terrorism.

The Act included a range of measures that are designed to enable New Zealand to meet its international CFT legal obligations. The Act enabled New Zealand to comply with the financing aspects of UN Security Council Resolution 1373, and with the obligations in the International Convention on the Suppression of the Financing of Terrorism. The Convention was ratified by New Zealand on 5 December 2002.

Another piece of legislation, the Counter Terrorism Bill is currently being considered by Parliament. This Bill contains supplementary powers in the form of new terrorism related offences and penalties. When this Bill is enacted New Zealand will be party to all 12 international conventions and protocols on terrorism

Reserve Bank of New Zealand



Banking Operations Opportunities on the Increase Worldwide

Global Career Link is an international recruitment consultancy that specialises in assisting banking, legal, and finance professionals find work in New Zealand, Australia and the UK.

Lately we have seen a marked increase in opportunities for banking operations people around the world. Many headcount freezes have been brought to an end enabling a number of retail and investment banks and financial institutions to employ again. This increased activity may be the result of a decreased focus on the Iraq war and SARS, together with strengthened stock markets.

Although many organisations are still taking a conservative view, we have seen the re-emergence of special projects that have been shelved for the last one or two years and a concurrent increase in demand for banking operations professionals.

In the UK, skilled temporary and permanent candidates from strong operations backgrounds continue to command excellent hourly rates and salaries.

International Settlements experience from Equity or Fixed Income areas is particularly sought after and remuneration levels reflect the low availability of quality candidates in the market, particularly on a contract basis. Other areas of especially high demand include: Reconciliations experience (nostros and cash); Corporate Actions/Dividends, Derivatives and Documentation skills.

In Australia, many companies are still operating with reduced headcount levels, which may see some operational teams struggling to cope with additional workloads. Although organisations are keeping current resources at a minimum, the expectation is that once growth in business returns, recruitment demand will increase across the whole sector. There is currently, however, strong demand for settlements and Corporate Actions professionals.

In New Zealand, the change in market conditions is not so marked, probably because of the distance of New Zealand from major global markets and our comparatively small size. New Zealand was not as hard hit economically as other countries post September 11th, so the "bounce back" will therefore be less pronounced. However we have noticed a slight upturn in demand for banking operations specialists over the last weeks, and can certainly predict greater demand with the Reserve Bank signalling its intention to focus on banking supervision in New Zealand.

If you or any of your employees are contemplating a move to Australia, your OE or a career stint in the UK, Global Career Link can assist in the following ways:

- Providing advice on preparing a CV appropriate to your particular overseas market
- By providing feedback on the market generically and specific to your background
- By setting up interviews in UK or Australian markets before you arrive
- By providing career management before, during and after your overseas experience
- By providing general advice on all aspects of living and working overseas

If you or any of your employees are looking locally in the New Zealand market, Global Career link has strong contacts in the banking operations sector, and would be delighted to advise on current opportunities.

For further details on how Global Career Link can assist you, contact Jane Everett in confidence on 0800 499 325 or e-mail her at jeverett@globalcareerlink.com

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FMOA COMMITTEE MEMBERS

Peter Thomas (Chairperson)
Head of Operations
Westpac Institutional Bank
peter.thomas@westpac.com.au

Gillies Cornelius
Settlements Manager
Telecom New Zealand Limited
gillies.cornelius@telecom.co.nz

Peter Katz
Austraclear Business Manager
Reserve Bank of NZ
katzp@rbnz.govt.nz

Maria Chandler
FMOA Administrator
info@fmoa.org.nz

Paul Chandler (Treasurer)
Head of Wholesale Settlements
National Bank of New Zealand
paul.chandler@nbnz.co.nz

Neil Brydges
Head of Finance & Administration
Macquarie NZ Limited
neil.brydges@macquarie.com

Margaret McKay
Senior Manager Operations
ANZ Custodian Services
mckaym@anz.com

Julie Allen
Deutsche Bank
julie.allen@db.com