the review
PROVIDING INSIGHT AND ANALYSIS FOR FINANCIAL SERVICES PROFESSIONALS
CISI.ORG/REVIEW
NOV 2023

THE LONG VIEW
COP28 and finance's role in unlocking climate action

GRAND DESIGNS
The Middle East's visions for a more sustainable future

TOWERING AMBITIONS

The elevated aims of COP28 in Dubai and plans for transformation in the Middle East

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welcome

"The global stocktake is likely to make for difficult reading"

The UN's first 'global stocktake' is expected to conclude at the 28th Climate Change Conference of the Parties (COP28), running from 30 November to 12 December in the United Arab Emirates (UAE). "It's likely to make for difficult reading," writes Hannah Duncan, author of our piece about expectations for the conference and finance's role in unlocking climate action (p.18).

While the choice of location may seem like a conflict of interest, given that the UAE holds 10% of the world's oil reserves and plans to increase fossil fuel production through to 2030, "proponents argue that it is the very reason that it should be hosted there", writes Duncan, where it can facilitate open discussion between carbon-heavy industries on the challenges ahead.

The UAE has already made some progress in addressing the threat of climate change, introducing several initiatives since 2017 to diversify away from hydrocarbon reliance – a pattern seen throughout the Middle East and North Africa (MENA) region. Our feature on investing in MENA (p.40) covers the impact of this diversification on global investment while our 'Grand designs' feature (p.26) looks at plans in the Middle East that include digital transformation, sustainability projects and a focus on employee wellbeing.

Elsewhere, we had the pleasure of meeting two influential figures in our sector, Dame Susan Rice and Alderman Alison Gowman, for a special double profile piece (p.34). Other highlights include a guest column by Professor Michael Mainelli, Chartered FCSI(Hon), chair, Z/Yen Group and Lord Mayor of London from 10 November 2023, on the existential threats of AI and global warming (p.17); an ethical dilemma about indiscreet use of social media (p.46); and Andy Davis's column on the tokenisation of securities (p.62).

As ever, please get in touch with any comments or suggestions you may have.

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Online content accessible through our MyCISI app

All content on this page is accessible at cisi.org/reviewlinks

WATCH

The Paraplanner Box Set
Elevate your paraplanning skills with our comprehensive Paraplanner Box Set featuring seven sessions on essential topics such as responsible investment, report writing, cashflow planning, and more. Hear from inspiring speakers such as Paraplanner of the Year Kate Morris and six-time world champion kayaker and Olympian Anna Hemmings MBE on conquering adversity and thriving under pressure.

MOST READ

1. **Who owns our clients?**
2. **Intelligent design: AI and the finance sector**
3. **Is the EU rulebook still heading for the bonfire?**
4. **Climate change and sustainability: key knowledge and skills challenges**
5. **Barriers to abolishing working-class bias in the finance sector**

LISTEN

New CPD offering: CISI Soundbites
Industry experts deliver short and concise audio-only learning with our new Soundbites – a flexible way to learn and earn CPD. Topics include the voluntary carbon market, managing crises in finance, and the move to T+1 settlement.

READ

Ask the experts: The benefits and challenges of accelerated settlement
Charlie Geffen, chair of the Accelerated Settlement Taskforce, Gary Wright, director at ISITC Europe CIC, and Alan Burr, Chartered FCSI(Hon), deputy chair of the CISI Operations Forum, discuss the case for moving to T+1.

EVENTS

Accredited Financial Planning Firms Conference 2024
Wednesday, 6 March
M&G Investment Management, London

Enjoy a day of networking and sharing best practices.

Book through our events page

To read more, visit *cisi.org/review*

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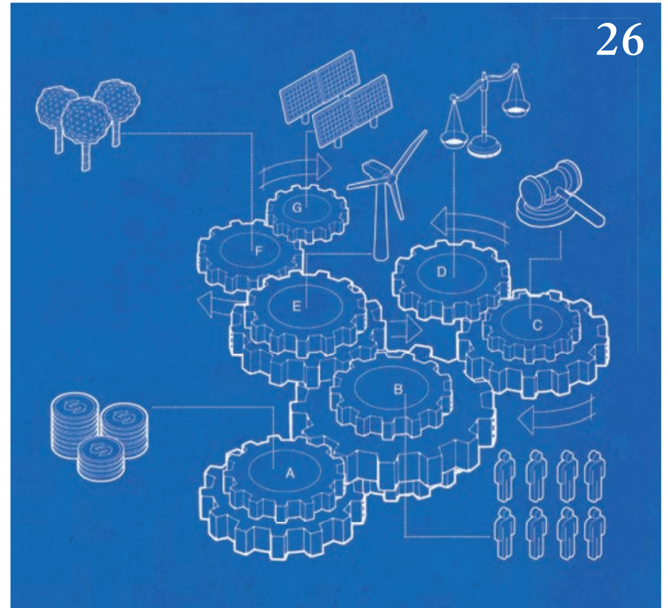

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AROUND THE GLOBE

The CISI's international network of offices looks after circa 47,000 members worldwide

UK

Chief executive officer: Tracy Vegro OBE

The CISI Future Foundation (the Foundation) is a grant-giving charity dedicated to supporting the advancement of education for the public benefit, by enhancing knowledge and improving skills in financial capacities and capabilities. The Foundation offers funding by partnering with organisations, both in the UK and abroad, to engage with young people from disadvantaged backgrounds on new initiatives that aim to advance financial literacy.

Over the past year, the Foundation's dedicated efforts have been focused on the appointment of a full Board of Trustees. This comprises representatives from the CISI's Board, the broader CISI membership base and a range of independent members. The Foundation has also put in place its full governance framework and achieved official charity status through formal recognition by the Charity Commission for England and Wales.

The Foundation launched its first window for UK grant applications in April 2023 and international applications through the CISI's national advisory councils in June 2023. Nick Swales, Chartered FCSI(Hon), chair, CISI Future Foundation (pictured) said: "We are thrilled by the tremendous response we received from some exceptional organisations, all united in the common mission of improving the financial literacy skills of our younger generations. The Foundation is actively seeking to support a broad spectrum of initiatives aiming at addressing this problem from all angles, with a commitment to reaching as many people as possible and with a clear vision for sustainable impact."

Read about the successful applicants and more at ***cisifuturefoundation.org.***

RWANDA

Assistant director, Global Business Development: Helena Wilson, Chartered MCSI

On 3 July, we announced a partnership with Women in Finance Rwanda (WIFR) – a membership organisation focused on developing and empowering women to advance their leadership growth – to provide scholarship programmes for our globally recognised qualifications and certifications.

Fifty candidates applied for either our 'Futures in Finance' programme – targeted at those under 30 years of age at the start of their career, or 'Sustainability Scholars', a programme for those wanting to learn more about the important role of financial services in driving a sustainable future.

In September, we selected 20 winners: 10 for each scholarship. The Futures in Finance scholarship winners can study for and sit our level 2 Fundamentals of Financial Services qualification. The Sustainability Scholars winners will have the opportunity to take our Sustainable and Responsible Investment Professional Assessment.

Lina Higiro (pictured), WIFR president and co-founder, and chief executive of NCBA Bank Rwanda, said that the partnership supports WIFR's objectives and works towards delivering gender parity in the sector. "At WIFR we feel confident that CISI will provide support to deliver the competence we need for Rwandan women to build the sector and compete locally and regionally."

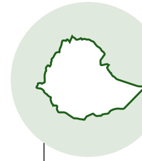
BOTSWANA

Assistant director, Global Business Development: Helena Wilson, Chartered MCSI

On 7 June, we announced a partnership with the Botswana Stock Exchange (BSE). We will work with the BSE to promote professional standards in Botswana's financial services sector by offering our level 3 International Introduction to Securities & Investment qualification. It will be one of the core qualifications for the Botswana capital market.

We have been an Associate member of the African Securities Exchanges Association (ASEA) since 2016, promoting professionalism and developing channels for capacity building in the capital markets in Africa. ASEA members can access our continuing professional development (CPD) resources and CISI membership.

Thapelo Tsheole (pictured) chief executive of BSE, became president of ASEA in December 2022. Commenting on our important partnership, he said that it is a "crucial contribution to the country's strategy of fostering a knowledge-based economy". He hopes to see broad take-up of the programme, not just within our sector but also in the wider public, to elevate "knowledge, skills and professionalism that could make the financial markets more vibrant and be impactful to the long-term development of the capital market".



ETHIOPIA

Assistant director, Global Business Development: Helena Wilson, Chartered MCSI

The Ethiopian Capital Market Authority (ECMA) has initiated a fully funded training programme for our level 3 International Introduction to Securities and Investment exam. This programme, hosted by our accredited training partner, the Addis Ababa University School of Commerce (AAUSC), targets 50 industry stakeholders.

Dr Brook Taye, director general of ECMA, attended the launch event on 1 September, emphasising the initiative's significance in preparing participants for the imminent launch of Ethiopia's capital market.

The programme offers a structured curriculum comprising various sessions to impart essential skills and knowledge, equipping participants with a comprehensive understanding of global securities and investments. At the end of the programme, participants will be enrolled on their exam and obtain a globally recognised certification from the CISI.

This collaborative effort demonstrates the commitment of CISI, ECMA and AAUSC to build capacity, promote professionalism and strengthen the financial landscape in Ethiopia.

BRANCH NEWS

CISI IRELAND APPOINTS NEW PRESIDENT

Adele Spillane MCSI looks to increase public trust and confidence in our sector

WORDS BY LAUREN JOHNSON, CISI COPYWRITER

Adele wants to strengthen the Institute's presence in Ireland by establishing more partnerships and collaborating with other professional bodies, institutions and stakeholders, "fostering relationships to promote knowledge exchange, professional standards and best practices".

She takes over from Eugene Kiernan FCSI, who served as the Ireland National Advisory Council (NAC) president from June 2020 to July 2023. Speaking of past NAC achievements, Eugene says that Adele, who has served on the council since 2017, "has already been at the fore in our achieved success" and is "taking over at a very exciting time".

The Ireland NAC supports, represents and publicises CISI membership locally. Adele and Eugene are dedicated to spreading the Institute's core values: upholding high standards of integrity and trust. Adele wants to address this through the council's work. "I plan to prioritise initiatives to promote ethical conduct within financial services," she says.

Looking ahead with the Ireland NAC

Adele is a non-executive director at BlackRock, serving on their UCITS (undertakings for the collective investment in transferable securities) and AIF (alternative investment fund) management company. She has 28 years of international expertise in asset management within sales and distribution, giving her a deep understanding of financial services and governance.

"I am delighted and honoured to be appointed president, and I look forward to working more closely with my council colleagues and building on the great work of my predecessor," she says.

Adele is excited to continue raising public trust and confidence, promoting lifelong learning and "elevating" the financial services sector by organising continuing professional development (CPD) events. She feels strongly about engaging with local members who can actively shape CISI initiatives and services in Ireland.

Adele thanks Eugene for his "fantastic work" championing diversity and broadening the range of voices on the council. She particularly notes his "unwavering commitment to delivering first-class CPD events".

NAC Ireland achievements

Eugene says his time as president was "hugely fulfilling" working with supportive council members and the CISI country representative, Deirdre Lawson. He is also grateful to CISI senior adviser George Littlejohn MCSI, whom he describes as "indefatigable and inspiring", supporting the NAC "on many occasions". He expresses his appreciation for the "many people in our business and beyond who are willing to give their time and expertise at our events".

Leveraging more than 40 years of experience in major investment firms, including Irish Life and AIB, Eugene is an independent investment consultant helping businesses with strategic asset allocation and manager selection and review. He joined the Institute in 1998 and became a Fellow in 2005.

He is incredibly proud of hosting the first-ever CISI Ireland and Northern Ireland branch committee event in 2022 between colleagues in Dublin and Belfast. The webinar looked at those challenges common to asset and wealth management.

Eugene is enthusiastic about what Adele can accomplish in the role. He says: "I believe integrity and trust is our space, and the CISI should be the entrusted body for advice, help and action globally."

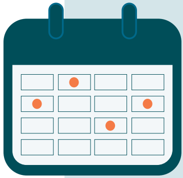
Nottingham Business School students to receive career boost with CISI collaboration

Students at Nottingham Business School (NBS) can now choose to study for and sit our level 3 Introduction to Investment, thereby becoming CISI members with access to our continuing professional development suite, including 250 elearning modules, CISI TV and thought leadership articles in *The Review*.

This collaboration will give students a "competitive edge in the world of work," says Kirsty Crosby, CISI head of Education Development, who welcomes NBS and Nottingham Trent University to our partner university community. NBS, one of the UK's largest business schools, is inspirational in its "commitment to supporting students from challenging socioeconomic backgrounds and we are privileged to be their partners," says Kirsty.

Eligible students can also enter our annual Educational Trust Global Awards.

Dr Vangelis Tsiligkiris (pictured), associate professor and course leader at NBS, said: "We are pleased to partner with CISI, the leading professional body for securities, investment, and financial planning. At NBS, our focus is on providing students with exceptional opportunities for professional development and career progression. This partnership with CISI perfectly aligns with our mission, offering students a clear path to excel in their finance careers."



EVENTS PREVIEW

We offer many opportunities to help you meet your requirements for continuing professional development (CPD). Below are just some of the highlights of the Institute's CPD events programme. For comprehensive details and to book, please download the MyCISI app or visit *cisi.org* and click on the 'Events' section. (Please note that dates listed below are subject to change.)

In-person events

Thu 16 Nov South Coast branch annual dinner

Thu 16 Nov South East winter social

Wed 22 Nov CISI Northern Ireland branch CPD and networking event

Thu 23 Nov CISI East Anglia branch annual dinner 2023

Thu 23 Nov Manchester and District winter quiz

Thu 23 Nov CISI Yorkshire branch Sicilian wine tasting experience

Thu 30 Nov CISI Cotswolds branch: 'Assumptions in financial planning'; and 'AI: the next general purpose technology'

Tue 5 Dec CISI Isle of Man branch: Why philanthropy?

Thu 30 Nov CISI Guernsey branch: Reality cheques – costing the Earth

Wed 6 Dec CISI Guernsey branch: Financial markets overview

Wed 6 Mar 2024 Accredited Financial Planning Firms Conference

Live webinars

Tue 28 Nov Hector's half hour

Disciplinary rules: important notice

CISI members agree to abide by the Membership Regulations. An important aspect of this is the obligation to promptly inform the CISI (by emailing standards@cisi.org) of any matter which may impact your suitability to remain a member. Failing to do so may be considered an aggravating factor in a disciplinary case.

Examples of matters which may impact suitability to remain a member include (but are not limited to): whether in the course of work, a member has committed any act or default likely to bring discredit to them, the Institute, or the securities, investment, wealth and financial planning professions; if a member has performed their work incompetently; and, if a member has failed to satisfy a judgement debt, has made an assignment for the benefit of creditors, a bankruptcy or interim order has been made against them, or if the member has entered into a voluntary arrangement as defined in the Insolvency Act 1986.

More information at cisi.org/mrules

QUICK QUIZ

The Review's quick quiz features questions from CISI Professional Refresher, an online learning tool. Find the answers below.

Which of the following is one of the UN Sustainable Development Goals?

A Better communication

B Corporate sustainable profitability

C Industrial growth for jobs

D Zero hunger

Which of the following best describes greenwashing?

A When green bonds lose their 'green' status, resulting in issuers suffering reputational damage

B A practice whereby firms advertise some superficial 'green' credentials purely as a public relations exercise

C When the price of green securities is pushed above their face value, so they trade at a premium to their conventional peers

D The process whereby investors seek penalties from issuers of 'green' securities who have broken their agreed green clauses

Which of the following best describes 'best-in-class' investing?

A Investing in companies that are the least ethical operators in their sector

B Investing in companies that are the best environmental and social operators in their sector

C Investing in companies that can be interpreted as the worst in their sector

D Investing in companies that are likely to provide the best returns in their sector

Answers: 1D, 2B, 3B

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Putting the pieces together

The 28th Conference of the Parties (COP28) in Dubai, UAE, is set to mark the conclusion of the UN's first 'global stocktake' – a comprehensive assessment of the progress made in achieving the goals of the Paris Agreement. We piece together the most notable summits in COP's history, what they promised, the gaps in what they've set out to achieve and their implications for the financial sector.

ILLUSTRATION LAURA CATTANEO

COP1 CLIMATE CHANGE 1995

1995

The first climate change COP (COP1) is held in Berlin, Germany. The 197 signatory countries of the UNFCCC agree to meet annually to control global warming and reduce emissions of polluting gases.

The missing piece

117 parties in attendance at COP1 agree to the Berlin Mandate, making reductions of greenhouse gas (GHG) emissions mandatory. But it is left up to governments to establish "specific, legally-binding" targets. As the chart (right) highlights, many had still not adequately met this requirement in 2022.

Start

THE BEGINNING: 1992

197 countries ratify the UN Framework Convention on Climate Change (UNFCCC) at the 1992 Earth Summit in Rio de Janeiro, Brazil, acknowledging that climate change is a "common concern of humankind."

3 separate COPs are established to address the environmental impacts of biodiversity loss, climate change and desertification (UNCCD – United Nations Convention to Combat Desertification).

COP1 BIODIVERSITY 1994

1994

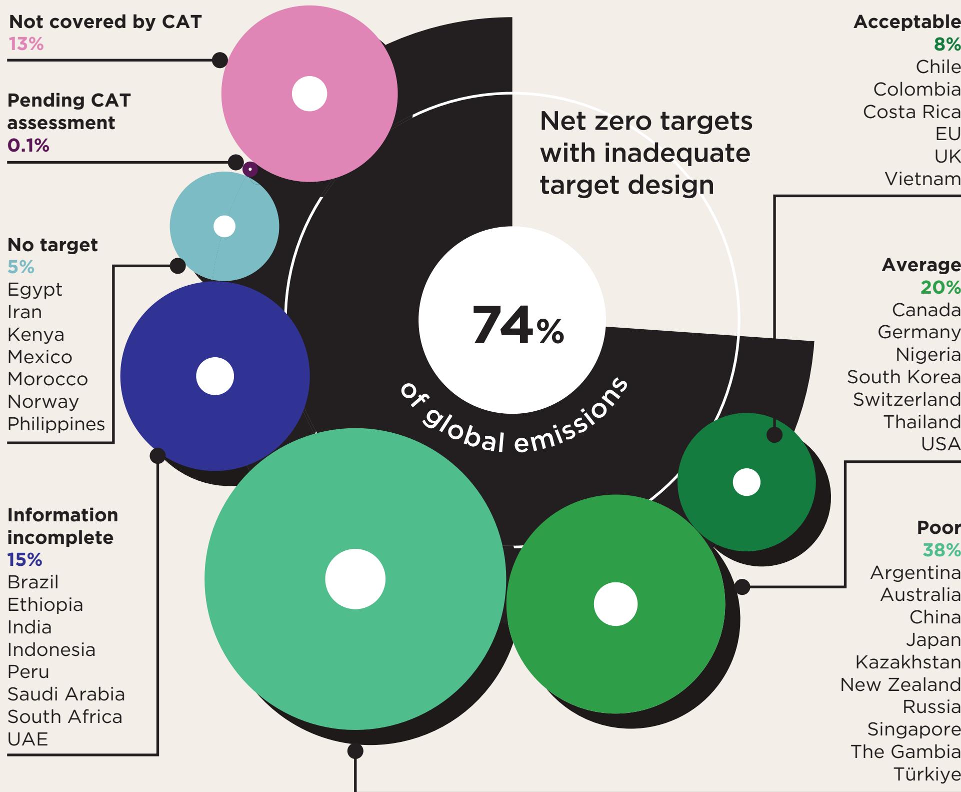
The first biodiversity COP is held in Nassau, Bahamas, where 196 parties ratify the UN Convention on Biological Diversity (CBD).

The missing piece

Only two countries in the world, the US and the Vatican, have not joined the CBD.

Worldwide targets in 2022 for eliminating GHG emissions

The quality of countries' targets for achieving net zero is mostly inadequate, according to data from the Climate Action Tracker (CAT) research consortium.



Source: Climate Analytics/NewClimate Institute

COP15 CLIMATE CHANGE 2009

<2°C

is agreed on as a limit for global warming in the Copenhagen Accord at COP15 in Copenhagen, Denmark.

COP11 CLIMATE CHANGE 2005

55%
of global CO_2 emissions

are accounted for when 192 parties finally ratify the Kyoto Protocol at COP11 in Montreal, Canada.

+ Positive outcome

By 2019, the EU had exceeded its Kyoto Protocol target of reducing emissions by 8% below 1990 levels, achieving a reduction of 24%.

COP3 CLIMATE CHANGE 1997

37
industrialised nations

and the European Community commit to the Kyoto Protocol at COP3 in Kyoto, Japan. Targets include cutting GHG emissions by an average of 5% below 1990 levels.

3
market-based mechanisms

are introduced by the Kyoto Protocol, laying the foundation for the carbon market.

These include:

- The 'clean development mechanism', allowing industrialised nations to invest in emission reduction or removal projects in developing countries.
- 'Joint implementation', enabling developed countries to carry out emission reduction or removal projects in other developed countries.
- 'Emissions trading', allowing countries that have 'unused' emission units to sell this excess capacity to countries that are over their targets.

The missing piece

The US does not ratify the Kyoto Protocol, despite being the world's second largest carbon emitter. Experts warn this will affect the working of carbon markets.

COP6 CLIMATE CHANGE 2001

180
members

of the UNFCCC agree on the operational rulebook for the Kyoto Protocol at COP6 in Bonn, Germany. Under the agreement, the groundwork for a climate change fund to help developing countries diversify their economies is established.

COP15 CLIMATE CHANGE 2009

US$ 100bn

per year by 2020 is jointly committed by industrialised nations in order to support developing nations reach emissions and development goals.

The missing piece

At COP16 in 2010, the Cancún Agreements formalise a new Green Climate Fund (GCF). As of 2022, only US$3bn has been disbursed through the GCF.

COP17 CLIMATE CHANGE 2011

2011

is the first time all countries agree to start reducing emissions at COP17 in Durban, South Africa. This includes the US and the emerging economies of Brazil, India, China and South Africa.

The missing piece

At COP19 in 2013, the Group of 77 (G77) developing countries and China propose a new funding mechanism to help vulnerable countries deal with “loss and damage” caused by climate change. The resulting Warsaw Mechanism falls short of the G77’s aims, and analysts describe the summit as the “least consequential COP in several years.”

COP21 CLIMATE CHANGE 2015

<1.5°C

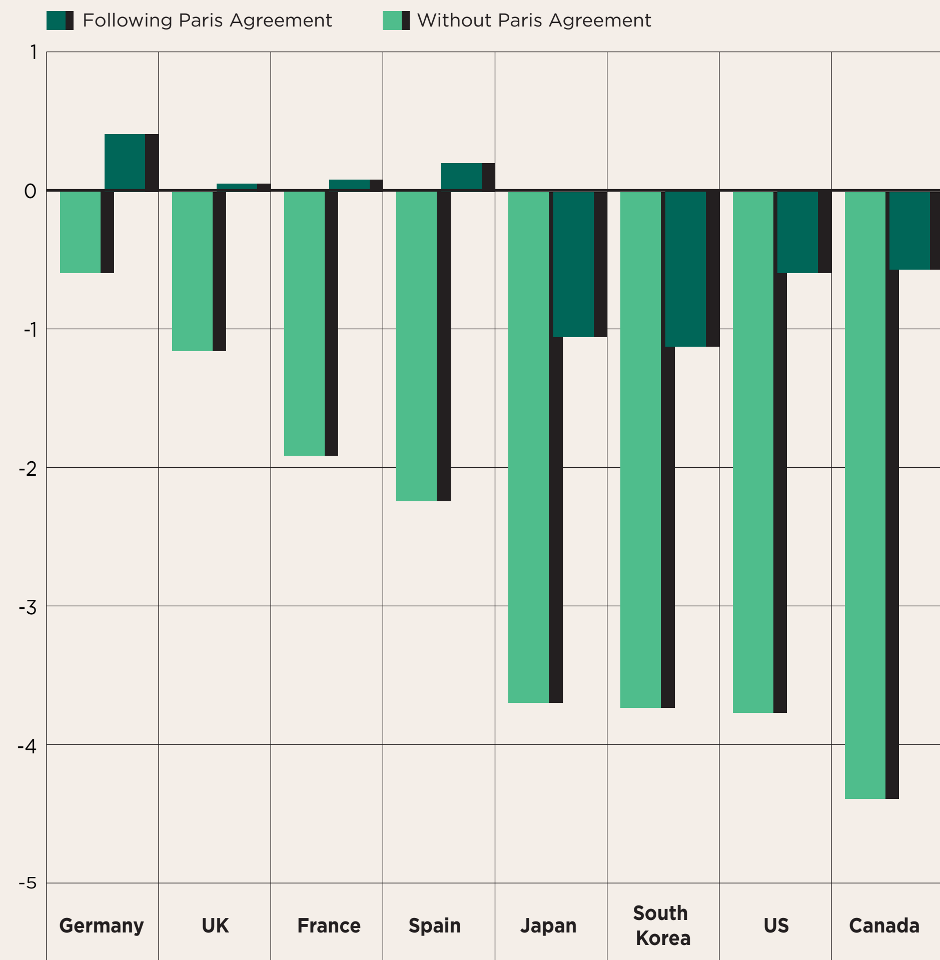
COP21 produces the Paris Agreement – a legally binding international treaty to limit global temperatures to below 2°C above pre-industrial levels, although world leaders are now aiming for less than 1.5°C. The agreement recognises that all countries, developed and developing, have an obligation to act on climate change.

The missing piece

It is widely accepted that developing countries are most vulnerable to the extreme weather changes wrought by climate change. However, in terms of GDP, 2019 research from the US nonprofit National Bureau of Economic Research (below) shows that some developed economies will be the most financially affected, particularly if the Paris Agreement is not adhered to.

Who will suffer economically from climate change?

The projected per capita GDP growth in selected countries by 2050, with and without adhering to the Paris Agreement (%)



Temperature rise with Paris Agreement: 0.01°C per annum; without Paris Agreement: 0.04°C per annum.

Source: US National Bureau of Economic Research; statista.com/chart/21619/gdp-losses-climate-change-paris-agreement

COP23 CLIMATE CHANGE 2017

D&I

Diversity and inclusion (D&I) are a focus of COP23 in Bonn, Germany, where a Gender Action Plan ensures the role of women in decision-making related to climate change, while the Talanoa Dialogue Platform promotes the participation of local and indigenous communities.

The missing piece

COP24 in Katowice, Poland, 2018, and the following year's COP25 in Madrid, Spain, fail to finalise rules for the global carbon market outlined in the Paris Agreement. However, the World Bank brokers a deal with countries such as Canada, Chile, Germany, Japan and the UK on the sidelines of COP25 to create the Partnership for Market Implementation.

EXCOP2 BIODIVERSITY 2020

2020

An "extraordinary meeting" of the 2020 COP on biodiversity (ExCOP2 held online due to the pandemic) establishes a framework to link biodiversity indicators to national economic accounting.

The missing piece

Following the 2020 biodiversity summit, a progress report from the UN notes that none of the 20 biodiversity targets for 2020 outlined in the CBD were achieved globally, with just six "partially achieved".

COP26 CLIMATE CHANGE 2021

GFANZ

COP26 in Glasgow, Scotland, establishes the Glasgow Financial Alliance for Net Zero (GFANZ) a global coalition of financial institutions, which aims to coordinate efforts across the financial system and accelerate the transition to a net zero economy.

Through GFANZ, US$130tn in private capital is committed by more than 450 firms across 45 countries to reach net-zero emissions across their portfolios by 2050.

Other notable achievements from the Glasgow summit include the establishment of the US$8.5bn South Africa Just Energy Partnership, which outlines a "just transition to a low carbon economy" and acts as a blueprint for emerging economies.

The Global Energy Alliance, a group of international development banks and philanthropic foundations, also creates a US$10bn fund to help emerging economies transition from fossil fuels to renewable sources.

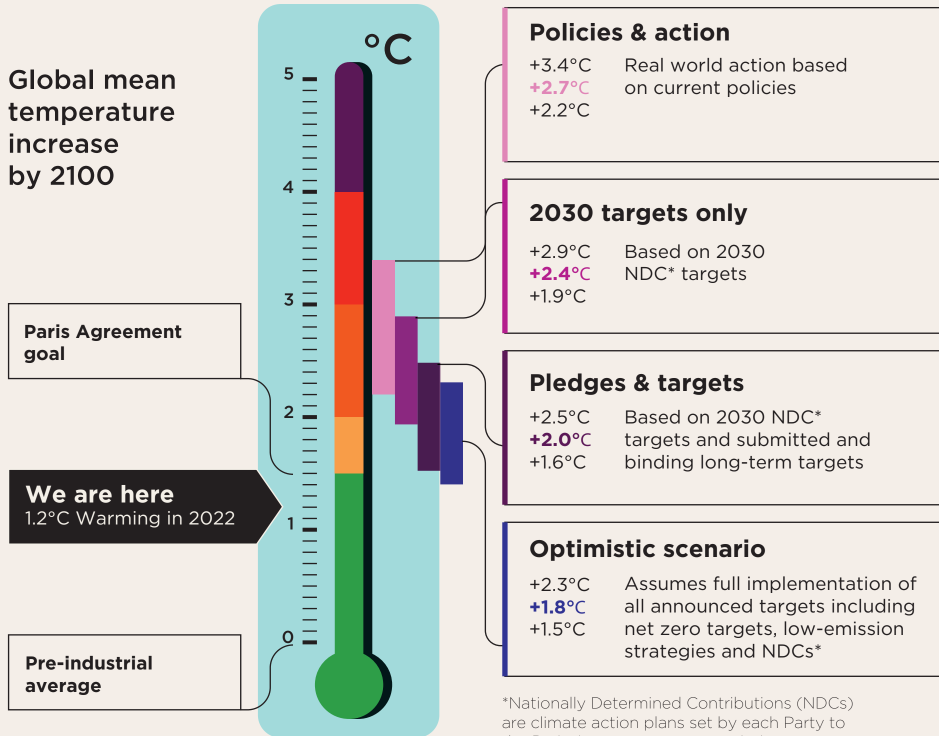
COP26 CLIMATE CHANGE 2021

GCP

or the Glasgow Climate Pact is also established at COP26. The GCP outlines plans to "phasedown" coal power, phase out inefficient fossil fuel subsidies and further reduce GHG emissions, including methane.

Warming projections: global temperatures by 2100

The Climate Action Tracker research consortium outlines the median global warming estimates by the end of the century, according to countries' policies and targets.



*Nationally Determined Contributions (NDCs) are climate action plans set by each Party to the Paris Agreement to cut emissions.

Source: Climate Analytics /NewClimate Institute

The missing piece

An Intergovernmental Panel on Climate Change report released before COP26 predicts the world will reach or exceed 1.5°C of warming within the next two decades even if nations drastically cut emissions immediately. This 2022 chart from the Climate Action Tracker (left) illustrates the expected levels of global warming.

COP15 BIODIVERSITY 2022

2022

The UN Biodiversity Conference (COP15), held in Montreal, Canada, sees the adoption of the Kunming-Montreal Global Biodiversity Framework, outlining global targets to halt and reverse nature loss by 2030.

COP27 CLIMATE CHANGE 2022

LDF

At COP27 in Sharm el-Sheikh, Egypt, nations agreed to establish a Loss and Damage fund (LDF) to compensate vulnerable countries affected by climate disasters. Global financial institutions are urged to revamp their practices to address the climate crisis.

The missing piece

COP27 does not broach a commitment to phasing down fossil fuels, despite broad support for the idea from nations including the EU and US, following pushback from oil-producing countries, including Saudi Arabia.

The self-inflicted, codependent existential threats of AI and global warming

Professor Michael Mainelli, Chartered FCSI(Hon), chair, Z/Yen Group and Lord Mayor of London from 10 November 2023, on tackling world-changing events

People have classified many global catastrophic risks as existential, from asteroid collisions to pandemics, extraterrestrials, the sun becoming a red giant, or entropy leading to the end of time. The same could be said of technology or situations we've created, such as AI, nuclear or bioweapons, the 'grey goo' of nanotechnology, or global warming.

One division of existential threats is those we can do something about versus those that we can't. Another division is those we are causing versus those that happen to us. We could stop the existential crises of AI and global warming if we change our behaviour.

AI and global warming have two interesting codependencies. First, AI makes global warming worse. Online AI searches, including those about how to stop global warming, consume far more energy than traditional 'Google' searches. Second, AI is likely to be an important technology in stopping global warming.

Throw precaution to the Wingspread

The 1998 Wingspread Conference on the Precautionary Principle defined it as: "When an activity raises threats of harm to human health or the environment, precautionary measures should be taken even if some cause-and-effect relationships are not fully established scientifically." Precautionary measures should be taken for both AI and burning fossil fuels, but they are both 'genies out of the bottle', so these measures fall largely on markets and regulation. Despite efforts to stabilise greenhouse gas (GHG) concentrations since the first climate change COP held in 1995 in Berlin, annual emissions continue to rise.

Yet, underpinning optimism, credible emission trading schemes (ETSs) now cover 23% of global emissions. ETSs can and do work, as shown around the world, once the permit issuance is restricted and the markets enforced. As most of these systems cover roughly 50% of their national or regional emissions, approximately 46% of emissions could be covered by achieving 100% national coverage. COP could focus on 100% of nations having an ETS.

Take the C out of ESG

Meanwhile, ESG has become, incorrectly, synonymous with preventing global warming. Rating agencies and consultancies are developing ESG scores for clients for a variety of issues using various algorithms. But, as the MIT 'Aggregate Confusion' project found, companies can be in the top 5% on one ESG rating algorithm and the bottom 20% on another. And firms like Shell achieve ratings of A from one rating agency and C+ from another.

Advisers to financial services firms have been pushing ESG approaches hard, not least because ESG work generates fees. Yet the resulting clamour and confusion and costs have led to firms leaving capital markets for private sources of funding, thus negating the intended outcome that ESG strictures should increase the cost of capital for non-compliers. Good, legal cashflow is valuable on unlisted markets too.

Taxonomic confusions have led to perverse roadmaps and blockages. Perhaps the chant should be 'Take the C out of ESG'.

It would be nice to see a COP that sets out a much clearer financial compact combined with some straight talking:

We, the global financial services industry, can stop GHG emissions using markets if governments commit to:

- making ETS markets work harder by extending coverage
- setting standards and targets for government issuance of sovereign sustainability-linked bonds
- using performance bonds to establish the credibility of voluntary carbon markets.

Not easy

Can markets 'fix' the AI problem? Chlorofluorocarbon (CFC) ozone damage was reversed by banning CFCs. But there were existing alternatives to CFCs. Banning AI looks unlikely to succeed. Sulphur oxides (SOx) and nitrogen oxides (NOx) were solved largely by financial markets using markets, as there still needed to be some emissions. GHGs, as agreed at COP3, fall into a category similar to SOx and NOx – markets can fix this problem.

The Precautionary Principle urges us to take action now. Creating a certification market for AI systems and users could be a successful strategy. Similar approaches of accreditation and certification, frequently using ISO standards, underpin several voluntary standards markets.

Ethical AI Initiative

The CISI, acting in conjunction with the City of London Corporation, the Worshipful Company of Information Technologists, British Computer Society, United Kingdom Accreditation Service, BSI, London Chamber of Commerce & Industry, ACCA, and Z/Yen Group, has initiated the 695th Lord Mayor's Ethical AI Initiative. This will bring out a course in 2024 to educate and certify people who deploy AI systems ethically, using various tools already developed, such as ISO standards and ethical methodologies.

The first people to take the open access course are in financial services firms, but we hope that by early 2025 it will be adapted for other sectors. A voluntary standards market for ethical AI is one attempt to address an existential risk. Alone, it is insufficient, but it is a start. ●

THE LONG VIEW

HANNAH DUNCAN is a multi-award-winning financial journalist, best known for covering sustainability, fintech and investment management. She's reported for a range of outlets including the *FT*'s *The Banker*, *AltFi* and *FFNews*.

Hannah Duncan looks ahead to the COP28 summit in Dubai, UAE, the hopes for what it will achieve and the role of finance in unlocking climate action

COP28, possibly more so than any other summit in the event's history, has high expectations resting on its metaphorical shoulders. The upcoming climate conference will publish the results of the UN's first 'global stocktake' – a two-year process initiated at COP26 in Glasgow, Scotland – on progress towards the Paris Agreement's goal of limiting global warming to 1.5°C above preindustrial levels. The stocktake should provide "a long, hard look at the state of our planet and chart a better course for the future", says the UN. It's likely to make for difficult reading.

The high expectations of COP28 are also partly due to the controversial decision to hold climate talks in the Gulf. The United Arab Emirates (UAE) holds a staggering 10% of the world's oil reserves, and COP28's President-Designate, Dr Sultan Ahmed Al Jaber CBE, is CEO of the US$13.34bn Abu Dhabi National Oil Company (ADNOC).

While climate activists have pointed out this inherent conflict of interest, proponents argue that it is the very reason that COP *should* be hosted in the region. At previous summits, countries have failed to adequately address fossil fuels' role in emissions and how to phase them out. Hopes are high that with its ability to engage oil conglomerates directly, the UAE will make greater strides in energy diplomacy. And at this stage of the climate crisis, COP28 will have to produce a clear political response along with tangible targets – or risk being seen as an abject failure.

To his credit, Jaber seems to recognise that

Some see Dubai (left) as a controversial location for the COP28 summit, given the UAE's financial links to the fossil fuel industry

COP's outcomes must also bridge the gap between policy needs and financial flows. "Finance is the key that can unlock climate action," he said in a January 2023 statement published by the Emirates News Agency, adding that his aims for the summit's outcomes include scaling up public financing, leveraging private finance and improving access to both.

Elephant in the room

But what of Jaber's commitments to limiting emissions and curbing global warming? On paper, he appears to be making the right moves. In 2006 he launched Abu Dhabi's clean energy company, Masdar, and after 14 years of guiding the emirate's adoption of renewables, was appointed in 2020 as the UAE's Special Envoy for Climate Change.

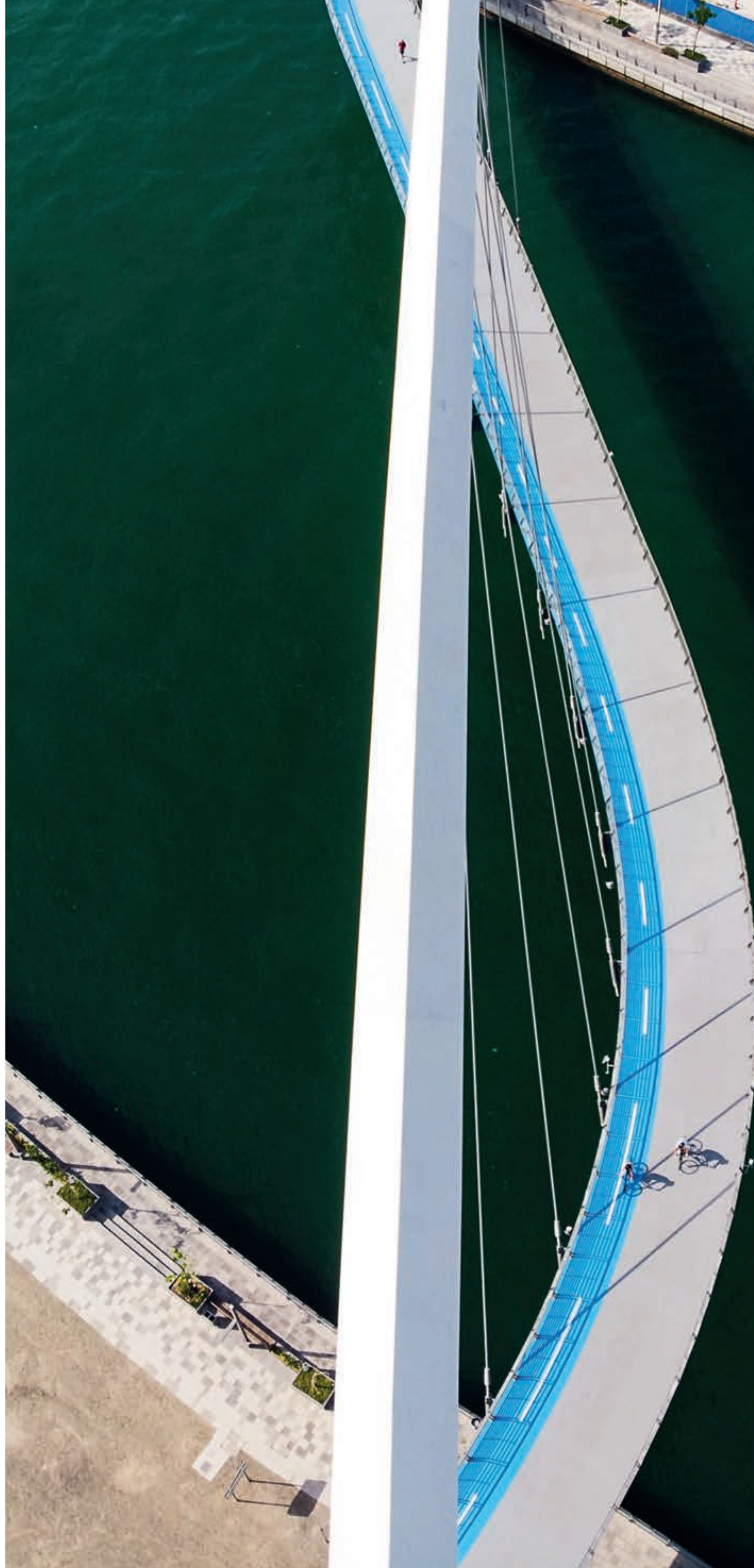
Masdar has invested US$30bn in renewable power projects across 40 countries. ADNOC, the state-owned oil conglomerate that Jaber has led as CEO since 2016, recently announced a US$15bn investment in its decarbonisation strategy.

However, in November 2022, ADNOC pledged US$150bn in capital spending to boost oil production capacity – raising its crude output to five million barrels a day by 2027 – despite the International Energy Agency's (IEA) warning in its *Net zero by 2050* report that there must be "no new oil and gas fields".

Space for much-needed conversation

Despite these sticking points, Catriona McDevitt, head of banking and finance at Hadef & Partners, an independent law firm with offices in Abu Dhabi and Dubai, says that the UAE deserves a reasonable opportunity. "It's not fair to say that just because the UAE is a significant oil producer, it shouldn't be allowed to host COP28", she says. "The UAE has shown that it is at the forefront of developing regulatory standards and frameworks for sustainable finance".

While the UAE's sustainability efforts are dwarfed by the EU's, it has considerably ramped up its approach. Since 2017, the UAE has implemented its National Climate Change Plan, Green Agenda (an initiative spearheaded by Jaber) and Guiding Principles on Sustainable Finance. Significantly for investors, in 2021, the UAE launched its Sustainable Finance Framework. The ten-year plan is a roadmap for mitigating and adapting to the climate crisis. To back it up, in July 2023, the UAE announced its intention to invest US$54bn in renewable energy over the next seven years.



Dubai's Tolerance Bridge (right), opened in 2017, is a 690-foot walking and cycling path spanning the Dubai Water Canal

"Dubai will be a welcoming place to encourage people to think bigger"

However, 2023 research published by the Climate Action Tracker research consortium rates the UAE's policies and actions as 'insufficient'. The group states in a press release that while "the UAE has slightly improved its 2030 climate target, it still plans to increase fossil fuel production and consumption, and emissions are set to continue rising through 2030". For almost every pledge, there seems to be a counterproductive action. An intention-behaviour gap. Getting over this hurdle will be difficult.

Dame Susan Rice, chair of the Global Ethical Finance Initiative Global Steering Group, says the UAE should host COP28 because of the potential to overcome these shortcomings – it provides a safe place for carbon-heavy industries to talk openly about the challenges ahead. "Dubai will be a welcoming place to encourage people to step out of their day-to-day roles, to think bigger and more effectively," she says. (Find more of Dame Susan's insights on sustainable finance in our profile on p.34.)

Richa Goyal MCSI, a programme director for Toronto Centre – an organisation that provides guidance for financial regulators in developing nations – and a CISI UAE National Advisory Council member, agrees. "The interconnectedness of sectors within the UAE and its role and

A REGULATION RAMP-UP

The lack of a universally accepted definition of what constitutes sustainable investing has led to huge disparities in focus and quality. To tackle this problem, the EU developed a taxonomy for sustainable activities, which came into force in 2020. Other regions, including the UAE, which began work on its taxonomy in 2019, are following suit.

Meanwhile, the Abu Dhabi Global Market (ADGM) Sustainable Finance Regulatory Framework – like the EU's Sustainable Finance Disclosure Regulation and the UK's Sustainability Disclosure Requirements – classifies investments into different categories. Managers can label investment funds, discretionary portfolios, bonds, sukuk and other instruments as 'green', 'sustainability linked' or 'climate transition'. For now, the disclosures are voluntary.

What's unique about this framework is that, at first glance, the legislation seems to be in the wrong order. It makes sense to define 'sustainability' before creating legislation about sustainable labels. As a workaround, the ADGM acknowledges the sustainability definition of any 'acceptable' taxonomy. Could this be a case of putting the cart before the horse? Or is it a sophisticated way of allowing for flexibility and testing without delaying progress?

influence in Africa and Asia creates both risks and opportunities for a sustainable financial sector strategy," she says.

There's cautious optimism in the air. In 2022, oil companies invested just 5% of revenue in renewable and low-carbon alternatives, according to the IEA. That may be just a fraction of what it should be, but it is a positive step – there are now more dollars being invested globally in clean energy than in fossil fuels, says former governor of the Bank of England Mark Carney in an April 2023 interview with Canadian television channel CTV. But there is much to be done. The target ratio for investment, Carney says, should be to spend four or five times more on clean energy than fossil fuels.

Can COP28 provide the platform for gas and oil companies to pledge to this transition? Perhaps. As in the case of Ørsted – the Danish multinational energy provider, once dubbed the world's dirtiest fossil fuel company, which transitioned to a world-leading renewable energy producer – unexpected heroes emerge when they are given a chance to shine.

Top of the agenda: funding for developing countries

The Middle East's transition to a low-carbon future would require serious investment – around US$1.2tn over the following decade, estimates the Glasgow Financial Alliance for Net Zero (GFANZ). Richa points to the region's "significant transition risks" and "high reliance on hydrocarbons for economic growth".

She says, "The fossil fuel industry is deeply connected to many other sectors that drive the economic engine of the UAE." As examples, she points to the region's transportation industry – including shipping, logistics and airline hubs – and real estate industry, where rising sea levels and scarce construction inputs will affect the financial sector.

For middle-income developing countries, the reliance on fossil fuels is even more pronounced. According to figures collated in January 2023 by the World Resources Institute (WRI), 89% of Iraq's total government revenue between 2015 and 2018 came from oil and gas. It's a similar story for Equatorial Guinea (81%), Libya (72%), Azerbaijan (64%) and Angola (56%) – countries whose economies are "often not adequately diversified", says the WRI.

To effectively navigate a fair transition, record-breaking funding is urgently required. As well as helping to reach climate goals, this funding can create much-needed jobs and diversify income streams.

Understandably, these regions are keen to get started. "Developing countries are quite focused on securing the funding, as we saw at COP27," explains Dame Susan. It will be important for these countries to continue building a robust economy because "they do not want to lose their competitive advantage", she adds.

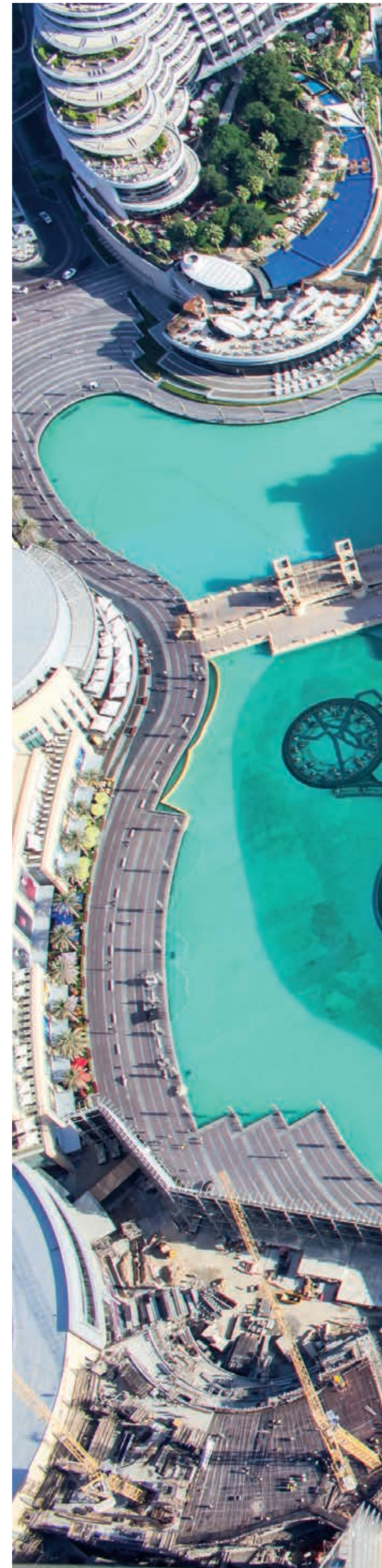
Calculations from the Carney-led GFANZ Race to Zero show that US$32tn must be invested over the next decade to help countries mitigate and adapt to the climate crisis (see the chart on p.24 for how these funds should be allocated per region). Crucially, the money cannot be allocated at random, as sometimes appears to be the case in ESG funds. Instead, the most carbon-intensive energy plants in developing countries must be prioritised.

Private funding and the role of green sukuk

Of the US$32tn needed to transition to a low-carbon future by 2030, 70% needs to come from the private sector. Jaber acknowledged this in a July 2023 press release announcing the launch of the Abu Dhabi Global Market's Sustainable Finance Regulatory Framework. "To make transformational progress, we need to shift gears in mobilising private finance," he said.

The climate, therefore, depends on investors pouring US$22.4tn into alternative energy, biodiversity and a circular economy, especially in developing countries. Sustainable sukuk are among the Middle East's most promising vehicles to deliver this goal. Bearing several similarities to the green bond, sustainable sukuk are Shariah-compliant investments, usually in renewable energy or other environmental assets. But as Catriona cautions, "There's currently no universal definition." (See p.21 for more on the UAE's plans regarding a taxonomy for sustainable activities.)

The first sustainable sukuk were issued in 2017, 20 years after the EU's first green bond. Although they may have been late to the party, their impact has been notable. The first raised US$59m to finance a 50-megawatt solar power plant in Malaysia, according to a 2021 report by the United Nations



Dubai's 30-acre man-made Burj Khalifa Lake is bordered by the Burj Khalifa, the world's tallest building at 829.8m (2,722 ft) high

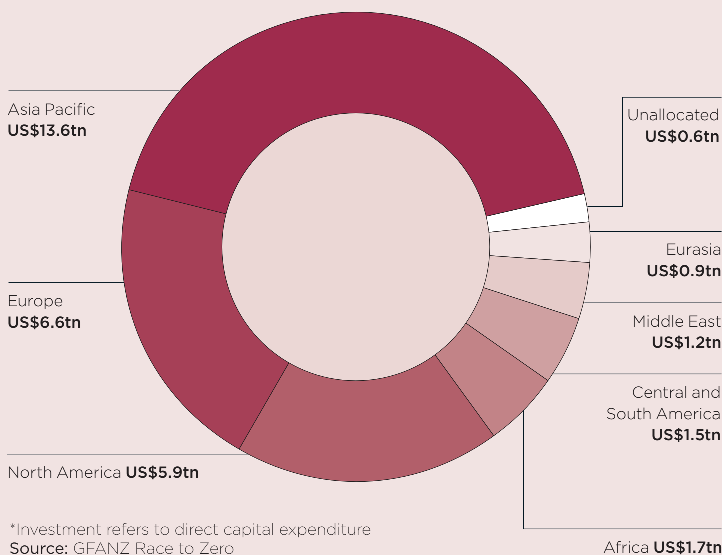
A 'JUST TRANSITION'

Attendees at COP28 will hear the phrase 'a just transition' used often. In his first statement as President-Designate, Jaber clarified that as the COP28 host, "The UAE will aim to build consensus and coalitions to achieve a practical, pragmatic and just energy transition."

But with public pressure mounting, there is a risk that this phrase could be used as a delaying tactic. Oil conglomerate Shell, for example, used the phrase while U-turning on its climate pledges earlier this year. Speaking to the BBC, CEO Wael Sawan said that decreasing fossil fuels would be "dangerous" and that "if we're going to have a transition, it needs to be a just transition" – a statement widely seen as greenwash.

Sustainable investors should research what a company means by this phrase before diving in, says Catriona. She recommends looking closely at the issuer's contractual obligations. "It's rare to have anything contractually embedded", she explains, "as the issuer usually doesn't want to have those additional obligations." Until the phrase 'a just transition' is codified, it could mean anything.

THE ALLOCATION OF INVESTMENT* REQUIRED TO TRANSFORM THE GLOBAL ECONOMY OVER THE NEXT DECADE, ACCORDING TO REGION



*Investment refers to direct capital expenditure
Source: GFANZ Race to Zero

Development Programme and the UK Islamic Finance Council, *Innovation in Islamic Finance*.

Over the past half-decade, green sukuk have grown steadily – with US$4.4bn issued in H1 2022 alone, according to financial market data provider Refinitiv – especially in Indonesia and the Gulf Cooperation Countries, which accounted for 53% of issuance. But there's plenty of opportunity for growth. To date, the UAE has issued just 8% of green sukuk. Increasing issuance could accelerate the brown-to-green energy transition significantly.

The religious underpinnings of Shariah finance could also prove invaluable in the fight against global warming. "Islam says that you must take care of the land," explains Mohamad Sawad, founder of an Islamic fintech based in Canada and an adviser to the UAE. He believes the movement towards green finance is slowly "reverting to the principles of Islamic finance".

The man-made island of Palm Jumeirah in Dubai (above) is five kilometres in diameter and is home to more than 80,000 residents

Governance risks and opportunities

When it comes to governance, there are some red flags in the Middle East. For example, the UAE, Saudi Arabia, Jordan, Qatar, Kuwait, Bahrain, and Oman are all governed by absolute monarchies and corporate executive roles within national companies are often awarded to members of the royal families.

With little accountability, this inevitably opens the risk of corruption. In March 2022, the UAE was added to the list of jurisdictions under increased monitoring by the Paris-based Financial Action Task Force (FATF) due to "deficiencies in [its] regimes to counter money laundering". While the FATF notes that the UAE has since demonstrated significant progress and commitment in its fight against money laundering, it adds that more time is needed to demonstrate the effectiveness of the country's structural and policy changes.

Additionally, in 2021 the International Consortium of Investigative Journalists published a report titled 'Pandora Papers reveal Emirati royal families' role in secret money flows', exposing just how entangled the region's royalty is in financial crime. For investors, this casts doubt over the financing of sustainable projects in the UAE.

However, there is a sustainable silver lining to absolute monarchies, which may provide some reassurance. Rather than presidential terms, it could be argued that rulers who lead for generations are better placed to plan for the future. They can set long-term goals in motion and stay the course to see them through. "What can you actually do in four years?" Mohamad asks. "You campaign the first year, so no work is done. And then you hope to get reelected for a second term, and that's it."

In Europe, where far-right politics are entering the mainstream, it's getting harder to pin down long-term climate policies. Under former President Trump and current President Biden, the US ducked out, and then back in again, of its commitments to the Paris Agreement. Meanwhile, turbulent politics in the UK have seen myriad political U-turns and contractions around fossil fuel strategies. "Countries like the UAE and Saudi Arabia have the ability to see things through because there's very little turnover at the top ranks," Mohamad emphasises.

Inclusivity matters

The region's attitude to diversity is also an issue worth raising. Less than 3% of CEOs in the Middle East are women, according to *Route to the top 2022*, a report from London-based executive search firm Heidrick & Struggles. Moreover, the region has some of the world's most restrictive legislation for LGBTQIA+ people. Why does this matter for sustainable investors? Because a number of studies link diversity in boardrooms to achieving climate goals.

> "We need to see profit and gain that is not simply to do with the numbers"

For example, *Board diversity and firm performance: impact of ESG activities in China*, a 2022 paper published in the *Journal of Economic Research*, concludes: "Companies who lack the means to participate in ESG activities might acquire a competitive advantage in their markets just by diversifying their board of directors." Similarly, a 2020 report, *ESG performance and board gender diversity* from the Italian University of Bari, finds that an equal number of male and female decision-makers lead to the best ESG outcomes.

COP28, at least, seems to recognise the importance of inclusivity, with Jaber promising in a statement to "engage all stakeholders from the public and private sectors, civil society, the scientific community, women, and youth."

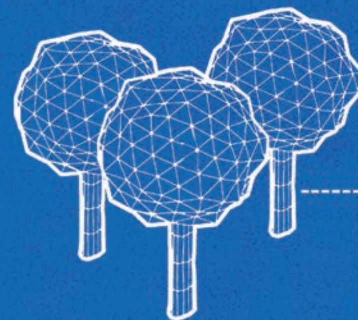
As such, the conference has appointed two women to the roles of Youth Climate Champion – in recognition of the need to empower young people in the climate action process – and UN Climate Change High-Level Champion, with the mandate to "strengthen engagement [with] … indigenous peoples and civil society."

Global COPeration

Has humanity ever faced such a vast challenge as the climate crisis? It's clear that to prevent a grim future of natural disasters, we will need to revisit our very economic models. As Dame Susan comments, "We need to see profit and gain that is not simply to do with the numbers."

COP28 must provide a plan that sees the world's energy companies working side-by-side with activists or otherwise risk undermining the last semblance of credibility in the COP process. Thankfully, there's a practical way forward: the IEA's recommendations, outlined in its *Credible pathways to 1.5°C* report, call for renewable energy installations to triple by 2030.

This COP – in the promising position of bringing both policymakers and the fossil fuel industry together – offers the potential for such an energy transition to happen. ●



GRAND DESIGNS

Increased ESG efforts, innovative digital transformation and inclusive employee policies are creating a more sustainable future for the Middle East's financial industry. **Jason Mitchell** provides a blueprint for what that will look like

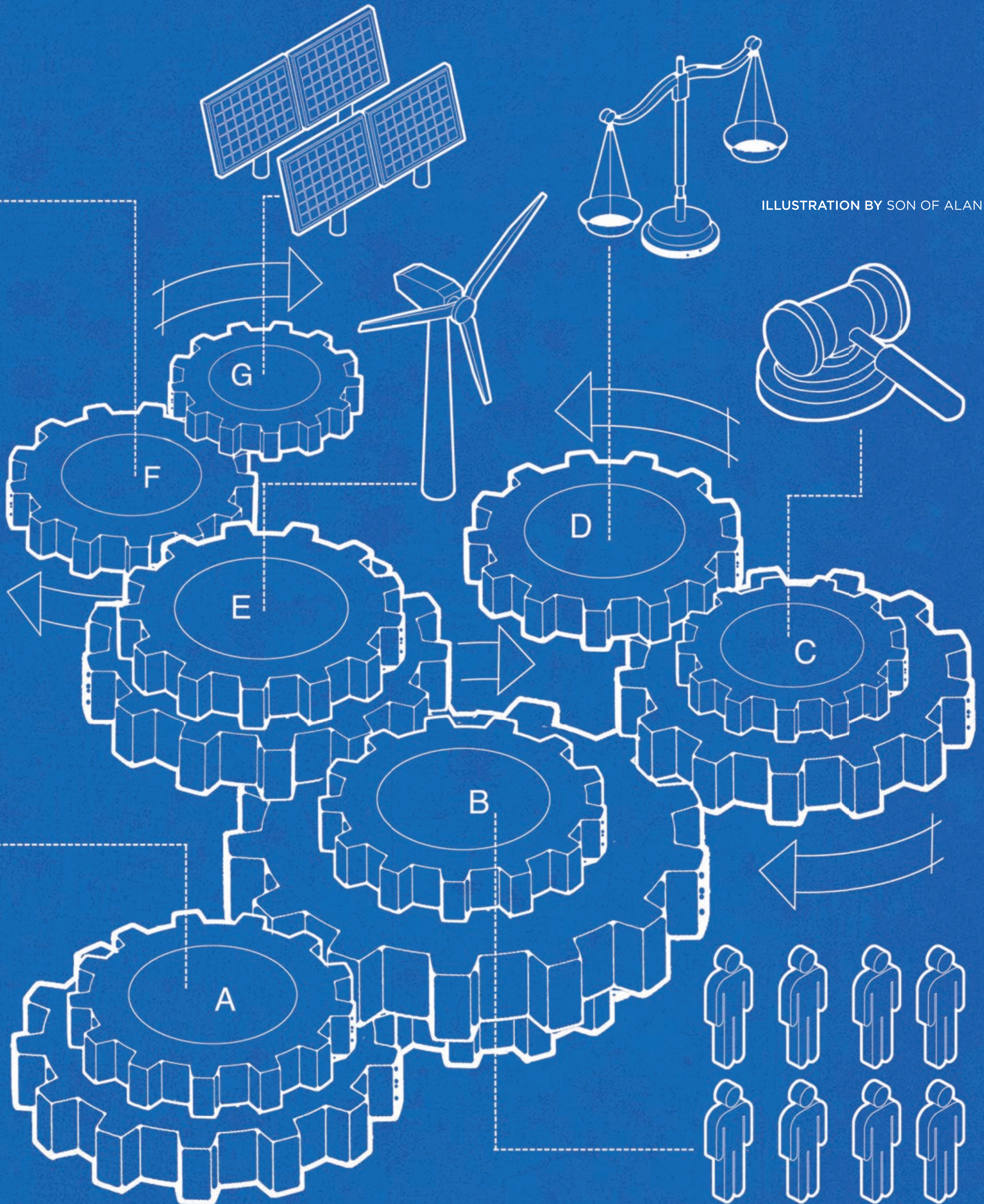
Environmental, social and governance (ESG) factors have underpinned the financial industry's social responsibility practices for at least half a century. But even though it may now feel ubiquitous, the term 'ESG' only entered the mainstream in 2004 when it was used in *Who cares wins*, a joint report issued by global financial institutions at the invitation of the UN.

Almost 20 years on, the significance of ESG has only increased, particularly in the Middle East where, according to PwC's *2023 Middle East* report, "there has been a seismic shift in progress on ESG". Of the firms and financial institutions surveyed by PwC, 64% adopted a formal ESG strategy in the year to March 2023, with many also trailblazing new technologies, embracing 'green finance' and creating a more inclusive workplace.

"There are two factors in the Middle East that have necessitated this change," says Dominic Bokor-Ingram, senior portfolio manager, emerging and frontier markets, at Fiera Capital, an asset management firm based in Montreal, Canada. "First, there was the Arab Spring, which was a wake-up call to the region that people in general needed to be more equitably treated.

"Second, we as a global consumer society are telling – not just the Middle East, but other oil-producing countries – that we do not want so much of their oil in the future."

JASON MITCHELL writes about emerging markets including the Middle East, Africa and Latin America. He specialises in wealth creation, capital markets, banking and sustainability.



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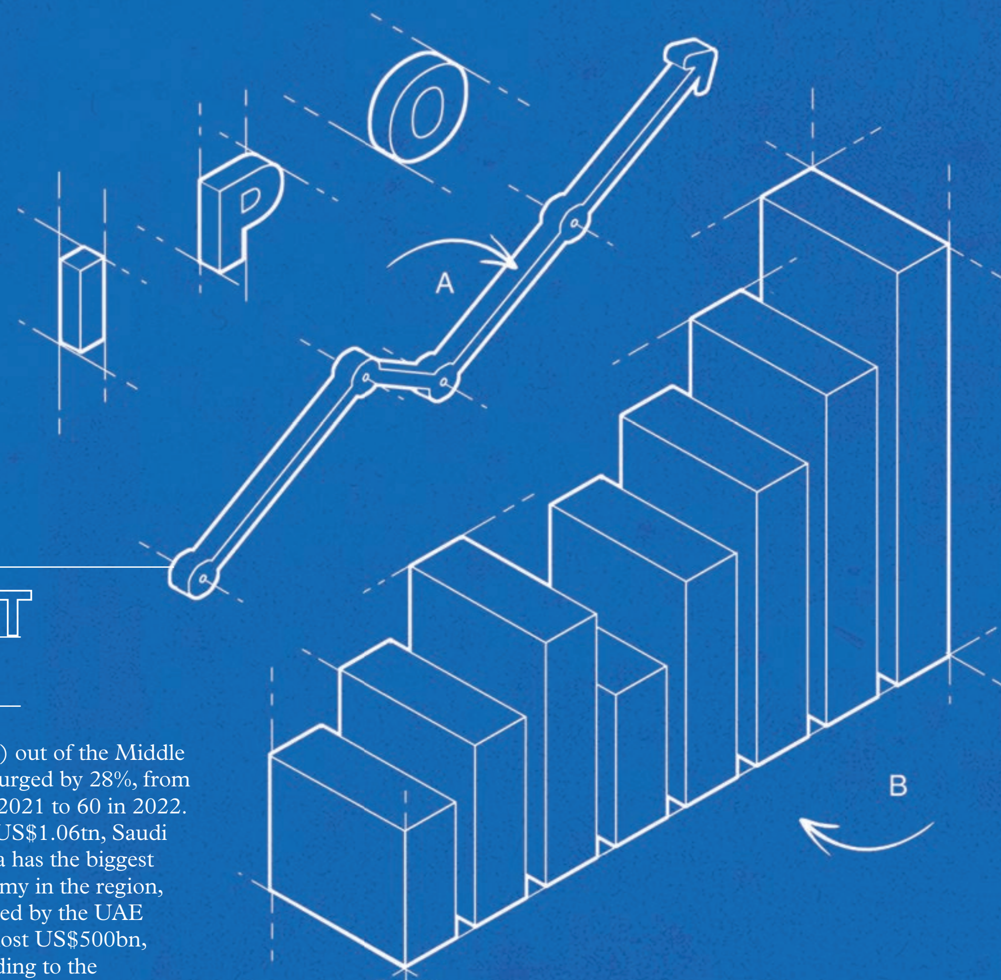


AN IMPORTANT HUB

Middle Eastern governments are taking note, with many adopting green agendas and outlining ambitious plans to diversify their economies away from oil and gas. The region's financial industry is also increasing in international importance. In recent years, the Gulf has been one of the few bright spots globally in terms of capital markets activity.

While Europe and the US saw a large decline in new listings in 2022 – down by 84% and 95% respectively – according to figures provided directly to *The Review* by financial market data provider Refinitiv, the number of initial public offerings (IPOs) out of the Middle East surged by 28%, from 47 in 2021 to 60 in 2022.

At US$1.06tn, Saudi Arabia has the biggest economy in the region, followed by the UAE at almost US$500bn, according to the International Monetary Fund (IMF). The Saudi stock exchange, the Tadawul, is now one of the top ten markets in the world, with a total market cap of US$2.9tn in August 2023. The value of the Saudi financial market has surged almost five-fold during the past five years, seeing the number of listed companies jump to 223 at the end of 2022 from 179 firms at the end of 2017.

READ

Our professional refresher on Green Bonds and Asset-Backed Securities

A NEW COURSE

It's little wonder, then, that Saudi Arabia's Vision 2030 plan aims to follow Dubai's example and re-orientate away from oil to trade in financial services. "Dubai created a non-oil economy out of service," says Dominic. "To add wealth, you need to improve productivity and innovation, and that is what Saudi is driving at."

There is growing recognition in the region that productivity and employee wellbeing are intrinsically linked, with the UAE implementing a National Strategy for Wellbeing. The Strategy outlines objectives for promoting healthy lifestyles and good mental health, and includes a specific focus on developing health and wellbeing programs in the workplace.

Saudi Arabia's Vision 2030 plan also takes diversity into account, aiming for 30% of Saudi women in the workforce by 2030, up from 19% in 2022. Moreover, the plan includes a series of 'giga projects', including the largest, Neom – a US$500bn carbon-zero smart city in the desert – and an increased focus on sustainability and conservation, with the creation of seven new royal nature reserves.

"This whole idea of sustainability in the Middle East will only catch on if the biggest player in the room, at least on the Arabic side of the Gulf – namely, Saudi Arabia – picks it up," adds Andreas Buelow, partner at Arthur D Little, an international management consulting firm.

MEASURABLE ACTION

One such move in the region towards greater environmental accountability occurred in 2021 when the UAE's Securities & Commodities Authority adopted the Global Reporting Initiative (GRI) standards. These mandate that listed companies – including financial institutions – must issue an annual report disclosing their non-financial performance. Jordan followed suit more recently, introducing a similar set of rules in January 2023.

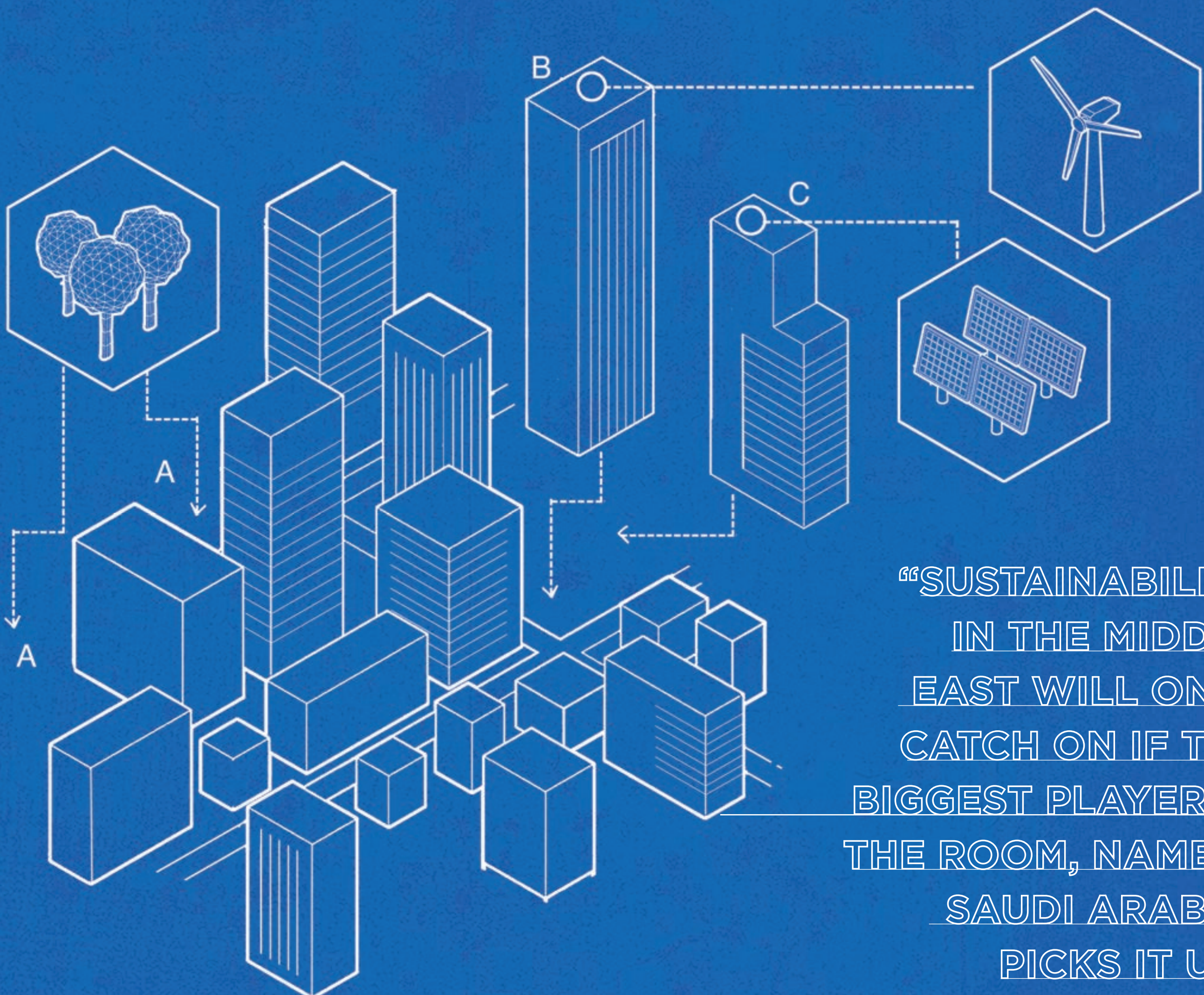
The GRI standards enable a range of sustainability topics to be measured, factoring in aspects such as economic, environmental and social disclosure and including topic-specific key performance indicators (KPIs). In October 2021, Saudi Arabia's stock exchange and financial regulators issued voluntary disclosure guidance around sustainability KPIs for listed companies.

In January 2023, the Gulf Cooperation Council (GCC) Exchanges Committee – comprising the stock exchanges of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE – published a unified set of voluntary ESG disclosure metrics for listed companies, including banks. These metrics comprise 29 standards aligned with the World Federation of Exchanges and Sustainable Stock Exchanges Initiative, including categories across greenhouse gas emissions; energy and water usage; gender pay; employee turnover; gender diversity; data privacy and ethics.

The Tadawul coordinated the initiative. Although it's a significant step forward, it is less comprehensive or rigorous than GRI reporting. However, it is possible that Saudi Arabia will transition to GRI standards in the future.

"These steps drive forward the idea that the stock exchanges and regulators in the Middle East are moving towards an expectation of sustainability reporting – whether it's a formal, mandatory GRI report or a KPI list that's consistent in the region," says Damian Regan, reporting and assurance leader for sustainability at Deloitte Middle East.

"This is important, as listed financial institutions are driving forward the sustainability transparency agenda and are using GRI to articulate their sustainability positioning and provide insight metrics on their sustainability impacts."



"SUSTAINABILITY IN THE MIDDLE EAST WILL ONLY CATCH ON IF THE BIGGEST PLAYER IN THE ROOM, NAMELY SAUDI ARABIA, PICKS IT UP"

OPAQUE REPORTING

However, the reporting does not show banks' financial exposure to companies that are high carbon emitters. Under the Greenhouse Gas (GHG) Protocol, an international standard that corporations can use to account for and report GHG emissions, financial institutions are expected to capture 'financed emissions'. These are defined as "portfolio-level aggregation of GHG emissions associated with a portfolio's underlying entities or projects" in *Exploring metrics to measure the climate progress of banks*, a 2022 report by the GHG Protocol's Carbon Portfolio Initiative.

If Middle Eastern financial organisations want to commit to sustainability in a meaningful way, they must become transparent about this kind of exposure. "We should be encouraging financial institutions to report on financed emissions because that's the area that we can call them out on and indicate that they need to be managing appropriately," Damian explains.

Furthermore, one of the issues with metrics such as the GRI standards is that they cover a company's position at the end of a period – for example, a bank's male-to-female employee ratio at the end of a certain year. They do not set a target or indicate how a financial institution will achieve a certain goal in the future.

Financial organisations in the Middle East will need to set appropriate targets to make greater progress on sustainability and diversity in the future. Assurance is also important. For instance, independent auditors or accountants should verify that a green bond is being invested in suitable sustainable projects. This would bring credibility to the sustainable finance infrastructure that is being developed in the Middle East, particularly in the UAE.

Similarly, regulators in the region should also embrace increased transparency. While the Dubai Financial Services Authority and the Financial Services Regulatory Authority (which oversees the Abu Dhabi Global Market) follow regulation on a par with international standards set by the FCA or Federal Reserve, the Saudi Arabia Monetary Authority is still in the process of improving its regulatory framework. This includes new rules introduced in August 2023 for operators and providers of payment services in the country.

A number of other Middle Eastern countries will, however, need to follow suit. For example, following an official visit to Lebanon in March 2023, the IMF concluded in a statement that urgent regulatory reforms such as "credible restructuring of the financial system" and "tightening of monetary policy" were necessary.

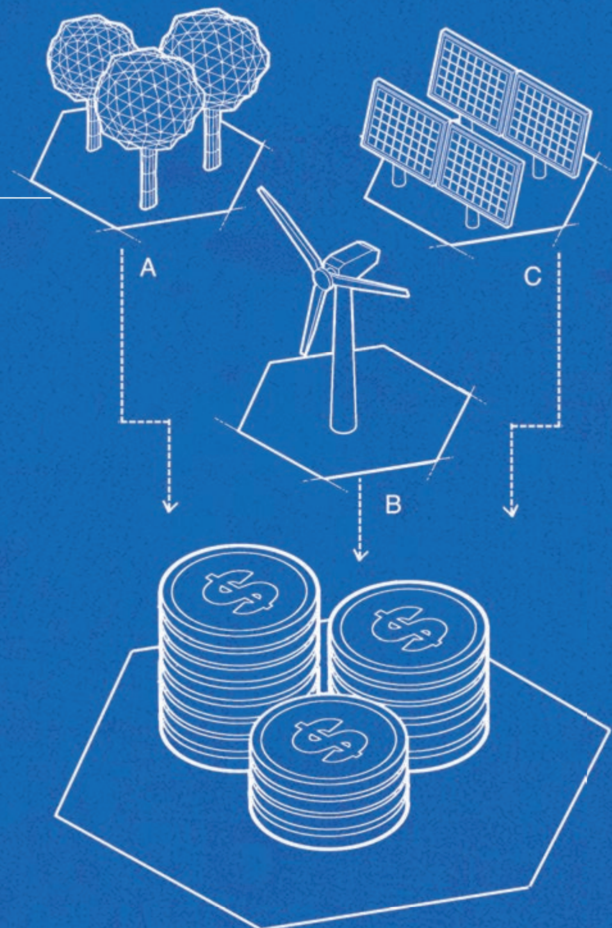
GREEN FINANCE

The market for green and sustainable bonds in the GCC region increased to US$8.1bn in 2022 from US$605m in 2021, according to data from Bloomberg's Capital Markets League Tables. Key initiatives include the introduction of ESG-focused equity funds and the establishment of guidelines and frameworks, such as the Abu Dhabi Sustainable Finance Declaration – signed by major financial institutions in the UAE – which facilitates the flow of capital into sustainable projects.

Major issuers in the region include the Public Investment Fund (PIF), Saudi Arabia's sovereign wealth fund, which listed a debut US$3bn green bond on the London Stock Exchange in October 2022. Additionally, companies including ADNOC and Masdar, the Abu Dhabi clean energy company, have successfully issued green bonds.

An important trend in 2022 was an increase in international issuances of green and sustainable sukuk (the Arabic name for financial certificates, also commonly referred to as 'Shariah-compliant' bonds). In February 2022, for example, Riyad Bank issued a US$750m additional tier 1 (AT1) sustainability sukuk – the first global issuance of an AT1 sustainability sukuk, as well as the first emerging markets AT1 issuance in a sustainable format.

In February 2023, the PIF completed its second green bond issuance, which raised US$5.5bn. The PIF says it will allocate an amount equal to the net proceeds of the issuances to finance projects in line with its Green Finance Framework.



DIGITAL TRANSFORMATION

New technologies are at the forefront of the Middle East's shift towards a more sustainable financial industry, where Abu Dhabi in particular is leading the way.

The ADGM – the first carbon-neutral international financial centre, according to the emirate – has recently partnered with AirCarbon Exchange, a Singapore-based global carbon exchange that uses distributed ledger technology on traditional trading architecture. Together, they are aiming to launch the world's first fully regulated carbon trading exchange and clearing house.

Another initiative is the creation of a world-leading technology ecosystem called Hub71, backed by the Abu Dhabi government and Mubadala Investment Company (the emirate's sovereign wealth fund with US$276bn assets under management). Hub71 will provide a community for founders to scale tech start-ups. Its scope will include every stage across over 20 business sectors, including fintech, biotech, healthtech, edtech, proptech, climatetech and artificial intelligence.

Meanwhile, the ADGM Courts – the first jurisdiction in the Middle East to directly apply the well-established principles of English common law – are also trailblazing the use of blockchain technology to digitally certify judgments and to allow their enforcement anywhere in the world.

However, Andreas cautions, even with the right technology in place, "no transformation will happen without mindset change". He believes it's here that digital innovation has the biggest contribution to make, explaining that people will only realise an important shift is taking place when work that was traditionally clerical in nature becomes digitalised.

"It holds true with ESG, too," he adds. "We can view ESG as a corporate social responsibility gimmick that companies use simply to improve rankings. Or we can look at it as a means for creating mindset change. That in and of itself is a very important function in contributing to the overall transformation of an economy." ●

CHANGE BY NUMBERS

Ahead of COP28, we look at the Middle East's aims for a more sustainable future

40%

of Middle Eastern firms hope COP28 will lead to improvements in ESG infrastructure and incentives for green growth*

2050

the year the UAE, Qatar and Oman would like to achieve net zero

2060

the year Saudi Arabia and Bahrain have committed to achieving net zero

41%

of firms in the region feel a lack of internal expertise needs to be addressed in order to progress the ESG agenda*

57%

of businesses would like to see a green standards and certification mechanism for the Middle East established at COP28*

*Statistics taken from the *2023 Middle East* report by PwC

Local expertise global community

ELIZABETH ANDERSON writes for newspapers including *The Times*, *Daily Mail*, *i* and *The Telegraph*. She enjoys writing about all aspects of business and finance, and speaking to people about their personal experiences.

Four financial services professionals share their insight into the finance industry in the Middle East with **Elizabeth Anderson**

The CISI entered the Middle East at the invitation of the UAE Securities and Commodities Authority (SCA) in 2009. "At that time, many of the region's markets were classified as frontier," says Matthew Cowan, Chartered MCSI, CISI regional director for the Middle East, India and Sri Lanka. "And there remains a strong desire from regulators to guide their markets to emerging and eventually developed status." To do so, he says, there is a general recognition, supported by the CISI, that the talent operating in these markets should be developed.

Working directly with the region's regulators and the Union of Arab Securities Authorities, the CISI has since created qualification frameworks tailored to many Middle Eastern markets. These include a bespoke Rules and Regulations exam commissioned by the SCA and nine custom-made regulatory exams created for the Saudi Capital Markets Authority. In addition, the CISI operates regulatory mandates in Jordan, Kuwait, Palestine, Oman and Qatar. Matthew adds that the qualifications in these areas help build local talent and create "mobility of talent" across jurisdictions.

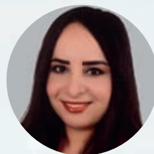
The Middle East is now the CISI's largest exam area outside the UK, with around 12,000 exam sittings in the region during 2022. According to Matthew, this is expected to continue and drive a surge in member numbers over the next year. "Candidates are drawn to the depth of resources and learning products we offer," he explains.

Here, four financial services professionals share their perspectives on the region's finance sector.

PETER SMITH
Managing director and head of strategy, policy and risk at the Dubai Financial Services Authority, and president of the CISI National Advisory Committee in the UAE

"People are taking note that the UAE – and Dubai in particular – is a place to be. The economy is dynamic, and innovation is encouraged. There's an atmosphere of energy and positivity, with a lot of opportunities at hand. For example, the region is at the forefront of digital currencies and has ambitious targets in place for utilising emerging technologies.

"The CISI has been incredibly successful in establishing an exam-based community here. There are many benefits of membership – belonging to the CISI is a globally recognised label of quality, showing that you meet objective standards and tests that are recognised within the industry. There are also excellent networking opportunities and recognised ethical standards that come with that."



MARIAN BOTROS, CHARTERED MCSI
Premier relationship director, HSBC, Abu Dhabi

"The local market is fast-paced and is currently experiencing constant change. It's been extremely volatile in the past year, due to rising inflation in response to the US Federal Reserve's decision to increase interest rates.

"Thankfully there's a great community in the financial sector. It's an aspirational environment, and colleagues spur each other on to reach higher goals. By its very nature, you have the opportunity to meet drivers and leaders within the industry here.

"While nobody can predict where the market is heading, there is a lot of talk about cryptocurrencies. I don't trade in digital currencies, but many investors ask questions about them. The CISI's resources have provided the information I need to give investors the answers they need."

MOHAMED BALIGH MCSI,
Retail portfolio controller, QNB Alahli, Egypt

"The Egyptian market is experiencing very high inflation at the moment – reaching levels of 40%. The current situation means that topics such as derivatives, foreign exchange trading and hedge funds are increasingly being discussed. Most people who work in the local financial sector aren't qualified in these areas, so there's a lot of room for growth within the industry, particularly in the nonbank financial sector. However, more has to be done to strengthen the current institutional framework.

"As the financial sector in the Middle East has become more global, we've seen increased demand for Shariah-compliant financial services. The fastest-growing area of Islamic finance has been the Islamic debt market, both domestically and internationally, which supports ESG investing objectives."

NICHOLAS KHAN-ROPER, CHARTERED FCSI
Chief investment officer & head of wealth at a single-family office, Dubai

"After stints in London and New York, I've now worked in Dubai for six years, and the quality of life here is second to none. There's a lot of change happening in the financial services sector. The UAE has seen several advisory firms move to fee-based models like in the US and the UK. There's an increasing shift towards robo-advice, too.

"I'd like to see the professionalism of the financial services community in the region increase even further. I believe the new normal should be advisers with a multi-disciplinary approach who have Chartered status across various investing and wealth bodies, and that gaining qualifications, such as those offered by the CISI, should become standard."

WATCH
Our recap of The Middle East Wealth Summit 2022 on CISI TV

Leading the conversation

Two pioneering figures from the financial services sector – banking chief Dame Susan Rice and law consultant Alderman Alison Gowman – discuss the importance of inclusivity and how collaboration and creative solutions hold the key to climate finance

PHOTOGRAPHY BY ALICE WHITBY

NATASHA TURNER is global editor of *ESG Clarity*. She has written for *Citywire*, *Money Marketing* and *The New Statesman* and publishes a weekly newsletter, Rebalancing Act, answering women's financial and economic questions.

Dame Susan Rice

Alderman Alison Gowman

Dame Susan Rice and Alderman Alison Gowman may have taken divergent paths to the top of their professions, but as they sit in conversation at DLA Piper's City of London offices, it's clear that they have a lot in common – from a shared interest in inclusivity and sustainability to their ability to think differently.

They greet each other like old friends, and with wide-ranging and distinguished careers in the City, it's no surprise they have met before. "The first time was at a Mansion House breakfast hosted by the Lord Mayor," says Alison. "I always think the City of London is such a fabulous networking place."

Alison says that as early as her mid-teens, she knew she wanted to be a lawyer. She was educated at a girls' grammar school in Dartford before studying law at the University of Durham, followed by Guildford College of Law. She is a consultant at London-based law firm DLA Piper, where she has worked for 45 years, "staying put" through a number of mergers, including with Alsop Stevens Batesons & Co, where she trained. She became an elected alderman for the ward of Dowgate in 2002.

Dame Susan studied biology and philosophy of science at Wellesley College, Massachusetts. A move to Scotland saw her complete her master's degree in the philosophy of science at the University of Aberdeen in Scotland, before returning to the US and entering academia, becoming dean at one of Yale University's residential colleges.

It wasn't until 1986 that she made a move into banking, taking a job with NatWest's US arm. Since then, she has held many banking positions, including CEO and then chair of Lloyds TSB Scotland. She was also a member of the Court of the Bank of England and chair of the Chartered Banker Professional Standards Board. Currently, she chairs the Global Ethical Finance Institute's Global Steering Group and Scottish Water, among other organisations.

She explains that her non-traditional path into the finance industry came after she and her family relocated to New York City, where she utilised the network she had created in the academic world to find a new job. "Unbeknown to me, some of these people had heard me speak at an event and approached me about a role in banking. The rest, as they say, is history."

For those looking to make a similar move, she advocates "seeing an opportunity and doing something with it. If you become too hooked on the next rung of the career ladder, you fail to look around," she explains. "You have no peripheral vision and can miss the potential for learning and growth that comes your way."

> "I believe being very good at something as a woman is more compelling than being seen as a woman who happens to be good at her work"

Change for the better

Another undeniable similarity between Dame Susan and Alison is their willingness to adapt and grow – in their careers, their work and as people. Alison's motivating force is to "embrace change", she says, adding that it is a learning point for her "to take part in something different and contribute and be a leader".

"Absolutely right," says Dame Susan. "You learn things about yourself when your professional life is changing around you. I went into banking at a senior manager level in New York City, but I was from outside

the industry. I learned I could either pretend I knew more than I did, or say to colleagues, 'I don't know' and ask questions. When you start engaging, you start learning from people. I was lucky because I gained that insight really early on."

Learning from others and making sure everyone in the room has a voice are things both women speak passionately about. "You need to ensure everyone around the table, especially new attendees, knows that their views are important," Alison says. But can too many opinions ever cloud an issue? She prevents this by "summarising the collective view". Dame Susan agrees, advising others to "synthesise what different people have been saying into a single way forward". By doing so, she says, it's "much more likely they'll pull together in a common direction".

Creating systemic cultural change is another way both women champion diverse views. Dame Susan chaired the Financial Services Culture Board (FSCB) from January 2020 until its closure in June 2023, having previously served on its board since it was founded in 2015. The FSCB conducted quantitative and qualitative research and ran behavioural trials to help firms understand issues of inclusivity and culture. Crucially, according to Dame Susan, it took an objective and intersectional approach.

"For example, along with traditional comparisons of men versus women or of different ethnic minorities, we looked at comparing genders within the same ethnic minority to highlight significant differences in the perception of a firm's culture," she says.

Alison points to the Social Mobility Commission, a government think tank that her firm is involved with and that she contributed to in terms of strategy in her role as alderman. The Commission was set up to monitor progress towards improving social mobility in the UK. In 2022, Progress Together, a body focused on boosting socioeconomic diversity in the UK's financial services industry, was founded. Part of that process is encouraging firms to set targets, and Alison provides the example of Santander's aim to have 35% of its leadership team come from lower socioeconomic backgrounds by 2030.

"It's really important that socioeconomic parity is addressed," Alison says. "But many of the existing programmes are about getting people into an organisation – those people won't be retained unless the culture of the organisation is fully inclusive, and that's the point you're making, Susan."

It is tempting to attribute Alison and Dame Susan's awareness of culture and inclusivity to their lived experiences, and there may be some truth in that. Both have been in situations where they were the only woman in the room, particularly in the early stages of their career, and can reel off anecdotes to that effect (Dame Susan was once asked to wear brighter colours at a dinner to "stand out from the men"). They can both claim 'first woman' titles: in 1985, at the age of 30, Alison became DLA Piper's first woman partner; and in 2000, Dame Susan was the first woman to head a UK clearing bank as CEO, then chair, of Lloyds TSB Scotland.

"For me, being the first woman to achieve something undoubtedly led to a more prominent voice and more significant and widespread actions to support women in the workplace," Dame Susan says. However, while both she and Alison have taken active roles in mentoring and supporting women and promoting inclusivity, they are wary of being recognised solely for their gender.

"I believe that being very good at something as a woman is more compelling than being seen as a woman who happens to be good at her work," Dame Susan says. "We're all there because of the same interests or skills. I want to be thought of as the person who is very good at X, or who is really interested in X, so that it is not my gender that defines me but my ability."

For Alison, part of the work she'd like to be known for is in sustainability. "People have said to me, 'Are you going to be talking about women and diversity?' And I've said, 'Well, that isn't my only topic'. I'm very happy to talk about that when it's appropriate, but, you know, my interest is around the sustainability agenda and environmental issues, how we should be adapting and how it's impacting society and the business world."

DAME SUSAN'S CAREER HIGHLIGHTS

2020–2023
Chair, the Financial Services Culture Board

2015–present
Chair, the Global Ethical Finance Institute's Global Steering Group

2015–2018
Chair, Scotland's 2020 Climate Group

2009–2014
Managing director, Lloyds Banking Group, Scotland

2007–2014
Non-executive director, the Bank of England

2000–2009
Chief executive and chair, Lloyds TSB Scotland

1997–2000
Managing director, Bank of Scotland

1986–1996
Senior vice president, NatWest Bancorp, New York

Sustainable cooperation

Alison has long championed the sustainability agenda in her work at DLA Piper – for example, by encouraging sustainability considerations in real estate assessments. As the founder and chair of the Livery Climate Action Group, and in her role at the City of London Corporation, she also helped to set up the Green Finance Institute in 2019. In her time as a non-executive director at the Institute, she set in motion its aims of accelerating the transition to a sustainable economy.

Recent work at the Institute includes bringing together stakeholders to discuss green mortgages, launching a UK Financial Institutions for Nature group open to any financial institution engaged in UK nature finance, and identifying how the UK government could better mobilise private investment into nature.

It is also part of a growing chorus of financial services sector voices highlighting the second-mover advantage the UK has in developing its long-awaited green taxonomy, which will provide criteria to help companies, investors, and other financial services sector actors to determine environmentally sustainable economic activities.

Although the taxonomy has been delayed, Alison remains positive, saying: "There are all sorts of political issues – and in the UK we have had so many upheavals over the past year that it got put back." She is more concerned with bringing people together to work on these issues.

Dame Susan agrees that it's necessary to combine forces across sectors to ensure that progress on sustainability issues goes "further, faster". And, as chair of the Global Ethical Finance Initiative's (GEFI) Global Steering Group – which brings together a range of stakeholders to steer the financial industry towards meeting the UN Sustainable Development Goals – she's seen the benefits a collaborative approach can bring.

Innovative approaches to risk

This also gives Dame Susan a global perspective on sustainability issues. She provides the example of a GEFI event at COP26 in Glasgow, where funding, and what it might be used for, was discussed. There, she says, a representative from the African Development Bank (ADB) reminded delegates that in many of the countries supported by the ADB, coal-fired plants provide jobs, power and energy, with tangible results such as "sending more kids to school". She believes it's vital that the financial sector recognises that these nations are "at a different stage altogether".

"It's about the just transition, I suppose, and also about inclusivity again," Alison adds. She references the point made at COP27 by the prime minister of Barbados, Mia Mottley, that institutions like the IMF and the World Bank – which issue loans based on risk, with wealthier nations historically being charged lower interest rates and given better terms than developing economies – are not structured to provide fair funding to the vulnerable nations that need it most. "It's quite radical, but we need to look at not only the way they work but also how they view investment, which is what you're talking about, Susan, and especially the risk element of that."

This exchange perfectly illustrates Alison and Dame Susan's propensity for listening and thinking differently about the way financial structures work. In response to Alison's point, Dame Susan recounts an anecdote of how, while in her role at NatWest Bancorp in New York, she developed the wholesale side of offering debt to large infrastructure projects in disadvantaged communities. In these areas, which held assets with little inherent value and where risks were uncertain, she found a different way to approach the problem.

"What I found was that if you look at these areas as a market which you don't currently serve as a bank, you bring a different mindset to it, and you start thinking about creating products for where there are deficiencies." Her solution was the notion of a "recoverable grant", which lends funds to such projects in their planning and development phases. If a project is greenlighted, the grant is then folded into a loan, and the bank is eventually paid back.

"If not," she explains, "it isn't seen as a loan loss, but simply as a grant. It was just so simple to find a different way of approaching it. It was about thinking about early-stage finance and other ways of allowing greater risk to be taken by the institutions providing that finance."

The same can be said of mobilising climate finance. Alison points to the case of the Sámi people in Finland, whose way of life is threatened by climate change and who could, for example, benefit from loss and damage funding.

However, she believes there's a disconnect between how industrialised nations are choosing to invest in green projects and the way in which vulnerable groups need such funding. "The two aren't working because there's that gap – that's where the multilateral development banks can come in," she says. She adds that it's imperative that those institutions don't work alone and instead synchronise their efforts with "private banks and private organisations".

ALISON'S CAREER HIGHLIGHTS

2021–2022
Sheriff of the City of London

2019–2022
Non-executive director, the Green Finance Institute

2021–present
Founder and chair, the Livery Climate Action Group

2016–2019
Chair, the City Bridge Trust

2014–present
Consultant, DLA Piper

2002–present
Elected as alderman of Dowgate Ward

1985–2014
Partner, the Real Estate Group, DLA Piper

1978–1980
Trainee solicitor with Alsop Stevens Batesons & Co, which later, through a series of mergers, became DLA Piper

Collaboration really is the key it seems.

Dame Susan adds that the logical next step should be for any institution that does engage in such projects to analyse its risks and share its experiences. "Because if one firm puts its toe in the water, and it's not a disaster, that will encourage others to come in. Eventually, that creates a body of knowledge, reducing risk and helping regulators to understand that there's less risk."

> "My interest is around the sustainability agenda and environmental issues, how we should be adapting and how it's impacting society and the business world"

Promise of progress

Despite this call for action, Dame Susan is quick to head off criticism of a lack of progress between COP summits. She believes it's too simplistic to paint a picture of the conference that is "black and white, good and bad, dirty and clean". The reality, she points out, is far more complex, with many different stakeholders' interests to consider. Any worthwhile change, she says, "takes a lot of preparation to kick in". Long-lasting results are unlikely to happen overnight.

COP27 in Egypt was dubbed the 'implementation' COP, meaning there were fewer headline announcements. On the public finance side, the biggest news was the agreement, after more than 30 years, of a Loss and Damage fund to compensate developing countries for the unequal impacts of climate change and forced displacement. This year in Dubai, COP28 is tasked with mobilising the money to pay for this fund.

"I don't know whether that funding solution will emerge," Dame Susan says. "But there may be at least some conversation that moves things forward. So many things just take time to mature."

Alison believes the summits that have been seen as more successful are those such as COP26, which had a "vision that it could include private finance as well as public". But she, too, cautions that nations' differing interests slow down the process. The US, in particular, she says, "doesn't want to put in money in a way it feels it can't control."

We're back to Dame Susan's belief that where one player is willing to lead the way, others will surely follow. And it's hard not to draw parallels between this trailblazing ethos and both women's careers. Dame Susan reflects: "I always say to myself, what's the worst thing that can happen if I do this and I mess up? And the worst never happens." ●

UNCOVERING MENA'S EMERGING MARKETS

Alex Sebastian peels back the layers to examine how investing in the Middle East and North Africa can aid portfolio diversification

ALEX SEBASTIAN is a freelance financial journalist specialising in business, investing and wealth-management. He has more than a decade of experience across national consumer media and investment industry titles.

The Middle East and North Africa (MENA) region covers an enormous 15 million square kilometres, extending east from the Atlantic coast of Africa to the border of Pakistan, and north from the southern boundaries of the Sahara Desert to the shores of Malta. Comprising 21 countries with a combined population of 493 million – greater than that of the EU – its size and strategic location make it an economically significant area, enhanced by vast human, financial and natural resources.

But while the region has long-established economic and financial links with G10 nations, several MENA countries are yet to fully exploit their economic potential. These frontier and emerging markets bring with them different, and arguably greater, risks than their more established counterparts. But the other side of the coin, of course, is larger potential rewards.

Diversification opportunities

According to Mike Hollings, Chartered MCSI, a partner at London-based wealth and asset manager Shard Capital, the appeal of MENA as an investment opportunity stems in part from its limited correlation with Western markets. "The MENA region is a living manifestation of demographic diversity," says Mike. "This means that each market has its own unique characteristics and demand trends, so correlation to developed markets is inherently lower, thus adding significant diversification benefits to global portfolios."

For Sudaif Niaz, co-manager of the BlackRock Frontiers Investment Trust, the domination of MENA markets by local investors underpins the portfolio diversification they offer, as it makes them less affected by global economic issues and external worries.

"The fact that many of the countries in the region have enormous sovereign wealth funds can help ameliorate the periodic concerns that investors have about all investments and jurisdictions," Sudaif says.

Sovereign wealth funds are a notable feature of Gulf Cooperation Council (GCC) nations, many of which have significant wealth and cash-abundant economies, says Mike. "In this regard, the GCC nations stand in sharp contrast to many other global regions currently wrestling with rising budget deficits and other financial challenges."

Mike also notes that over the past decade, the GCC nations have adjusted their strategies in response to their strengths and vulnerabilities. For example, the area is a hub for innovation, with ambitious transformation plans, such as the Dubai 2040 Urban Masterplan – which aims to redevelop parts of the city into eco-friendly finance and technology districts – in place. On the other hand, the region recognises that regulatory uncertainty is a stumbling point.

These insights have guided their economic policies, increasing controls and diversifying revenue streams towards tourism, technology, renewables and financial markets, while conserving existing wealth. The result, according to Mike, is remarkable economic resilience, with the GCC region demonstrating considerable robustness in the face of diverse economic and political uncertainties, making it an attractive investment destination within global multi-asset portfolios.

Growth potential

An important indicator of global investors' warming interest in MENA is an uptick in initial public offerings (IPOs). According to EY's *MENA IPO Eye: Q2 2023* report, MENA IPO markets saw 13 IPOs during Q2 2023 – a 44% increase from Q2 2022 – raising US$1.8bn in proceeds. (See the chart on the next page for a broader view of IPO activity in the MENA region over the past five years.)

Mike adds that the combination of an increasingly prosperous and well-educated consumer base, coupled with the emphasis on diversifying economic growth, has driven high demand for local, cash-generative companies in recent years.

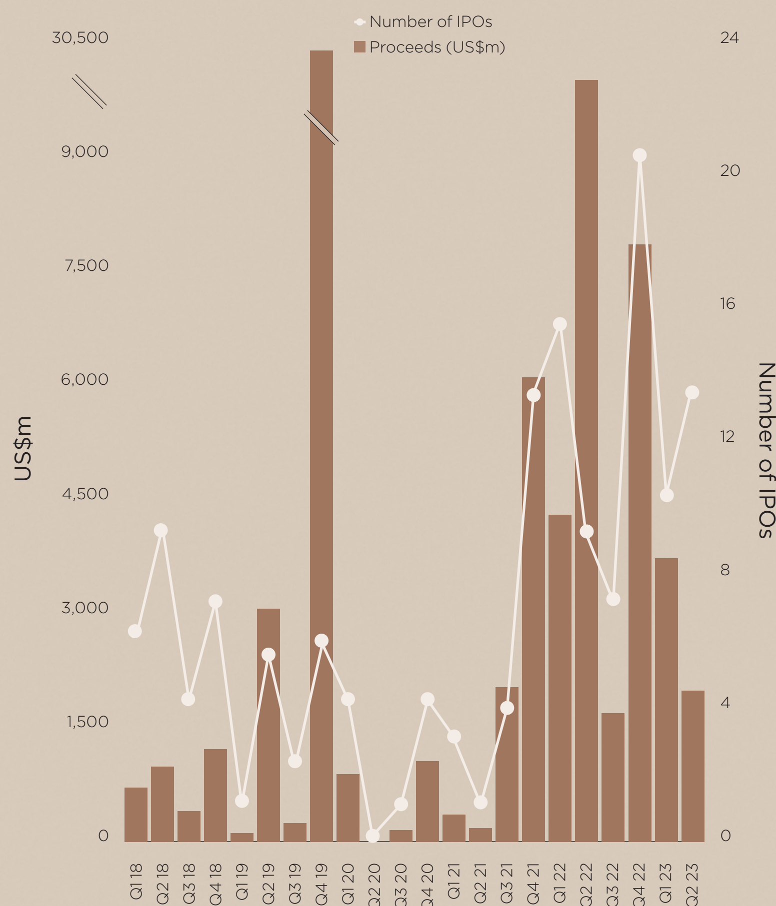
"The growth potential from regional IPOs very often exceeds those currently available within developed markets," he says. "Recent IPOs in the region have exhibited characteristics reflecting the high-growth potential typically associated with emerging economies. This unique combination makes these IPOs exceptionally attractive investments, especially in the present climate of global uncertainty."

This is particularly true for the Gulf states, with Saudi Arabia leading the way with 11 IPOs on the Tadawul (Saudi stock exchange) during Q2 2023, according to the EY report. Notably, these listings came from companies spanning several sectors, as Saudi Arabia continues to focus on diversifying its economy in line with its Vision 2030 plans.

Similarly, the report mentions the launch of an IPO accelerator programme by the Dubai Financial Market in H1 2023, aimed at family businesses and large private companies. As a result, Al Ansari Financial Services PJSC was the UAE's first family-owned company to be listed, raising US$210.4m in proceeds.

Sudaif adds: "As the region is increasingly seen as a stable and more convenient place to do business, there has been an influx of capital into these countries, often in conjunction with capital backing from the local governments themselves. This has led to a boom in IPOs in recent years. It is also worth noting that

MENO IPO ACTIVITY (Q1 2018 TO Q2 2023)



Source: The EY *MENA IPO Eye: Q2 2023* report

> “Each MENA market has unique characteristics, offering portfolios significant diversification benefits”

the stock markets of these regions are still developing, and IPOs are considered a way for the local populations to partake in the domestic GDP evolution.”

With 23 Saudi Arabian and two Egyptian companies announcing their listing plans in H2 2023, the EY report notes a “strong pipeline of IPOs to come”.

Population momentum

The importance of demographics should not be underestimated when weighing up making an investment in MENA, particularly in comparison with developed economies.

Demographic trends in the area strongly favour sustainable longer-term growth prospects, Mike says. While developed regions such as Europe and Japan have relatively low birth rates and ageing populations, the MENA region is experiencing population growth of 1.5% per year, according to data from the World Bank – well above the global rate of 0.88%. This, says UNICEF, will see MENA’s population nearly double by 2050, with 271 million children, adolescents and youth (0-24 years) coming of age in the region by the middle of the century.

It’s clear that growth in the region will be accompanied by a youthful, productive and financially motivated population, with asset classes such as consumer spending and tourism set to be the key beneficiaries. The UAE is a prime example in this regard, as shown by the popularity of Dubai as a shopping and tourism destination.

Mike adds that while the demographic headwinds facing developed economies will, to an extent, be offset by technology-driven productivity gains, these same factors will add to the already strong growth prospects for the MENA region in the decades ahead.

Another important growth factor to be aware of is the ongoing transition to renewable energy. “Despite these markets’ reliance on oil prices, which entails that the growth trajectory will be somewhat cyclical, we’re excited by their growth opportunities and note that the general direction of travel has been positive,” Sudaif says.

“For example, the recent measures taken by the governments of UAE and Saudi Arabia to diversify away from hydrocarbon reliance will pay dividends in the long run. The countries are also using their natural endowments to develop significant renewable power industries.”

Risks vs rewards

While there’s a compelling case for allocating some portion of portfolios to the MENA region, there are, of course, risks. Arguably, these are more pronounced than in developed markets. Political instability and regulatory uncertainties give reason to be cautious.

Mike says one challenge is linked to the centralised political and economic decision-making prevalent in some MENA nations. While it might be argued that this has an advantage – offering policy consistency and clear future directives – it can also pose significant risk. For instance, Mike says, if such a singular party or individual were to be displaced, there could be abrupt and radical policy shifts.

Currency volatility can present another material risk, although it is worth noting that not all countries in the region share this concern, because many peg their currencies to the US dollar, mitigating fluctuation risks.

Governments in the region are also taking steps to improve transparency and governance in their financial markets, aiming to boost investor confidence. The Dubai Financial Services Authority, for example, requires financial institutions to comply with international regulatory standards, while Saudi Arabia’s Capital Market Authority has increased transparency in the Tadawul by making it a requirement for listed companies to provide more detailed information to their investors.

These efforts to reduce risk exposure may not yet be standard across all MENA countries but, with an increasing desire to attract foreign investment, it seems likely that most will follow suit in the near future. When they do, the region’s potential to weather the challenges posed by global uncertainty could see it thrive. ●

IS AI A GAME CHANGER FOR INVESTORS?

Active investors have attempted to gain an edge on markets by using AI processes to retrieve and process data for years. For example, some use tools to gauge sentiment from social media, others scrape text from company financial reports.

While these efforts may have been aimed at selecting stocks to outperform markets, it's not clear that AI tools are a recipe for consistently generating abnormal returns. Material information gleaned from running AI processes is likely a subset of the vast information set known by the market in aggregate and already reflected in market prices. If new information is obtained, the process of acting on that information (buying or selling stocks or bonds) incorporates it into market prices. As more investors employ these tools, any edge from doing so should wane.

Another reason to question AI's role in helping market timing is limitations with its predictions. AI's forecasting ability fares well in assessing patterns that are relatively stable. Your phone is often successful at 'guessing' where you're going because you make the same journeys at the same time. Self-driving cars know to slow down approaching a stop sign because these visual cues are stable.

AI is far less likely to successfully predict changes within complex systems that are as dynamic as stock and bond markets. AI trying to predict market prices is like self-driving cars trying to read stop signs that differ from one day to the next. The continuous emergence of new information material to market prices makes predictions almost impossible.

AI is useful in managing and sorting vast sets of data in the investment process. And it may help some people gain a certain advantage. But to the ordinary investor, basic investment principles like low cost and diversification are more powerful.

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UK PENSION CHANGES – WE NOW KNOW WHAT WE ARE LIKELY TO EXPECT IN APRIL 2024*

The Finance (No. 2) Act 2023 received Royal Assent on 11 July, so the abolition of the lifetime allowance (LTA) charge, the increase in the annual allowance to £60,000, the increase in the threshold for the tapered annual allowance to £260,000, and allowing for those with enhanced and fixed protection (those who chose to protect their pension from a previous reduction in the LTA) to restart pension input without losing their protection, all became law.

Draft legislation was published on 18 July 2023, confirming the removal of the LTA but also detailing that authorised lump sum payments plus any lump sum death benefits, including those in respect of a member under age 75, are to be tested against a new lifetime threshold of £1,073,100 per person. Any of these lump sums paid in excess of this limit will be taxed at the recipient's marginal income tax rate. Although taxed as income, these payments will not be included when determining if the tapered annual allowance will apply.

We already know that the maximum tax-free limit for the pension commencement lump sum and uncrystallised funds pension lump sum will be fixed at £268,275 unless valid protection is held, in which case a higher limit will apply.

A further surprise announcement was that where beneficiaries opt to receive death benefits as a pension rather than a lump sum, any withdrawals will be taxed at the beneficiary's marginal income tax rate if the member dies before age 75.

There may be some amendments, particularly concerning the point above as it is a significant shift in the tax treatment of death benefits, but we now understand more how the removal of one complicated regime will be replaced by another.

*All information correct as of 25 July 2023

professional development

46 Grey matters: Social network **48** Continuing professional development
50 Ask the experts: How are central banks adapting to a changing world?

Social network

Your assistant has used her personal social media account to complain about a client without mentioning their name. The client's identity could be easily guessed. What should you do?

Everyone at the medium-sized firm you work for, Strategic Finance, is excited to meet a new celebrity client, Nik Yan, a social media influencer. Nik has a growing online following and has recently become 'verified', reinforcing his social media presence. Nik will be working closely with your organisation, promoting the firm on social media through various posts on Instagram and X (formerly Twitter). The company's CEO is particularly excited about the new venture, which will hopefully lead to greater reach and public engagement.

Nik frequently appears in the media, speaking about how he overcame financial difficulties. He shares tips for getting the best bargains and is known for his 'fake it 'til you make it' mantra. He has received a lot of support and sympathy from the public, especially cash-strapped fans who can relate to his frugal lifestyle. He has become a well-liked figure in the media and has even been approached by money-saving apps for sponsorship deals.

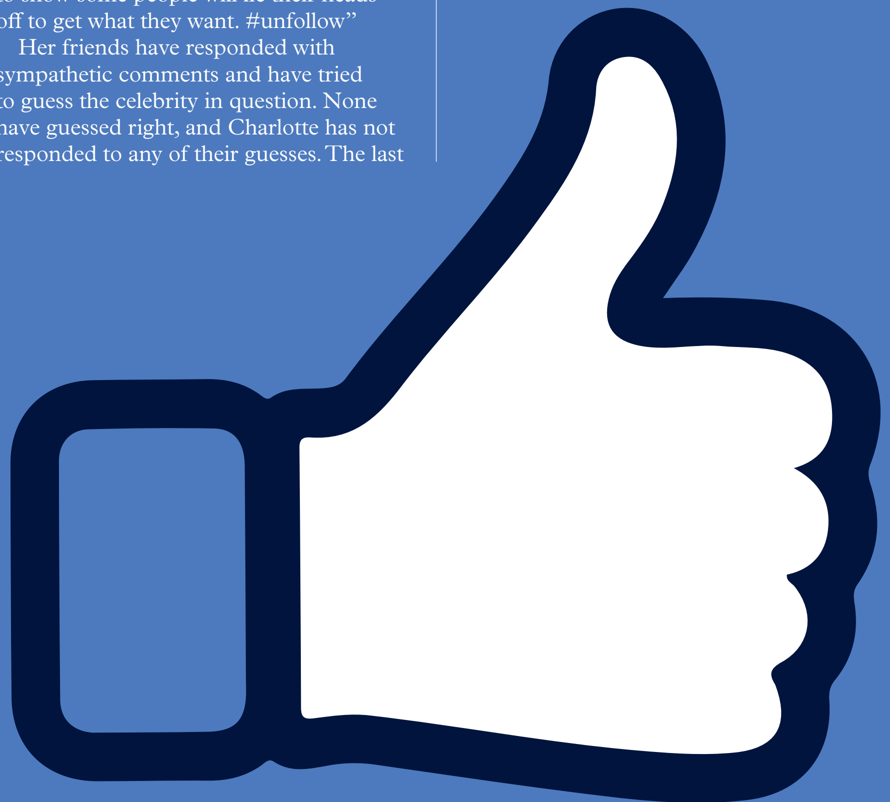
Your assistant, Charlotte, can't be present at the meeting with Nik (much to her disappointment, as she's a huge fan), so you ask Nik for his permission to record the meeting for notes to be typed up later, as is standard practice. Nik agrees.

In the meeting, you are surprised to learn that Nik is not struggling financially. He has well-organised financial affairs, with approximately £3.5m net assets. Nevertheless, you provide Nik with the advice requested on investments.

After the meeting, you give Charlotte the recording so she can make notes for Nik's file. The next evening, you are on X when you notice that Charlotte has made the following post: "Bad day at work today. Celeb client. I always thought they were for real, but just another faker. Just goes to show some people will lie their heads off to get what they want. #unfollow"

Her friends have responded with sympathetic comments and have tried to guess the celebrity in question. None have guessed right, and Charlotte has not responded to any of their guesses. The last time anyone responded to the post was 12 hours ago.

The next day at work, you speak with the HR lead to discuss the situation. They tell you there is no formal social media policy and they are looking to develop it.



A decision is made to take disciplinary action, but what should be the sanction?

1. Charlotte should be dismissed. The client comes first, and as Nik is closely linked with the firm, people would be able to work out who the comments were about. This could jeopardise further business.
2. As there is no firm social media policy, Charlotte should be asked to delete the post and be given a first written warning.
3. As there is limited guidance, the firm should create a disciplinary panel and open a formal investigation on Charlotte. This will lead to a disciplinary hearing, where Charlotte can represent herself.
4. It's a matter of personal ethics. Charlotte's X account is personal, and her views are her own.

What would you do? Visit cisi.org/social-network to share your views. We'll publish the survey results and CISI's opinion at cisi.org/verdict-social-network

THE VERDICT: WHO OWNS OUR CLIENTS?

This Grey Matter was published in the July 2023 edition of *The Review.*

It highlights the longstanding issue of advisers taking clients with them when moving to new firms. In this case, Sumeet, co-founder of OneInvest, has been offered an opportunity with a competitor who wants Sumeet to bring clients with him.

CISI members voted as follows:

1. He should dismiss the offer like he has with other competitors, as Sumeet has a fiduciary duty to do the right thing. (7%)
2. Sumeet is passionate about digital investing, so he should move across. He can highlight the new venture on his LinkedIn, so, should his clients wish to join him, they can make the move themselves. (17%)
3. Sumeet wants to work with ABC Banking, so he should agree with Willow on how many clients he can take with him. (25%)
4. The needs of the clients come first. Sumeet should work with Willow and find someone who can join OneInvest and bring their expertise to help continue to develop the firm. (50%)

Responses received: 224

The CISI verdict

The dilemma incorporates many themes from the CISI Code of Conduct, including personal accountability, client focus, conflicts of interest and respect for market participants.

No shareholder agreement is in place, making it more difficult for Sumeet to choose what to do next. He has received offers before, but this opportunity would allow him to do more of what he enjoys.

There is viability in each option. Option 1 is aligned with Sumeet's past actions but may not be fair to him. Option 2 highlights a degree of transparency but seems to divert his responsibility to his clients. Option 3 creates an agreement but assumes client ownership. Option 4 looks for a replacement but doesn't address client ownership.

As stated in option 4, the needs of the clients come first. It is also important to address the issue of client ownership.

Our recommended solution is option 4

Find someone who can join OneInvest, followed by option 3, where Willow and Sumeet work out an agreement.

Should you wish to suggest a dilemma or topic to feature in a future Grey Matter, please email ethics@cisi.org.

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READ

Micromodule: Bluewashing
You will discover what bluewashing is and how it differs from other forms of washing, the rise in the 'social' aspect of ESG and related data issues, and the verification of claims within the bluewashing arena.

CPD: 7 mins

Professional Refresher
Artificial intelligence: our saviour or destroyer
In partnership with the FS Club, Professor Michael Mainelli, Chartered FCSI(Hon), chair, Z/Yen Group, and Lord Mayor of the City of London from 10 November 2023, and George Littlejohn MCSI, senior adviser to the CISI and editor of *The International Banker* magazine, discuss the pros and cons of AI.

CPD: 1.01 hours

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Implementing the Principles for Responsible Banking
Focusing on integrity, guest speakers discuss how banks can effectively implement the Principles for Responsible Banking towards continuously improving their impact and contribution to society.

CPD: 1.02 hours

Fostering diversity, equity and inclusion at work
Florence Nduba ACSI, head of investor services at Kenya Commercial Bank, Amrita Bhogal, CISI professional standards and ethics manager, and Hassan Habib, an expert in AI, leadership and the future of work, discuss diversity and inclusion.

CPD: 1.08 hours

EVENTS

Accredited Financial Planning Firms Conference 2024
Wednesday 6 March
9am–5pm

M&G Investment Management
10 Fenchurch Ave
London EC3M 5AG

CPD: 5 hours

Pre-conference dinner
Tuesday 5 March
The Vault
Revolution Leadenhall
140 Leadenhall Street
London, EC3V 4QT

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ASK THE EXPERTS

How central banks are adapting to a changing world

How should central banks respond to markets grappling with increasing inflation and rising costs of living, as well as structural changes, such as climate change and technological developments? Isabel Albarran, investment officer for economics at UK-based Close Brothers Asset Management, and Gero Jung, chief economist at Mirabaud Asset Management in Switzerland, discuss how central banks are adjusting their approach.

ISABEL ALBARRAN is an investment officer for economics and asset allocation at Close Brothers Asset Management, covering global economic data.

GERO JUNG is chief economist at Mirabaud Asset Management. He was formerly a senior economist for the Swiss National Bank and adviser to the IMF.

An evolving response to global economic events

Isabel Albarran (IA): Central banks generally do two things: they set monetary policy and are responsible for bank regulation and financial stability. There is some early thinking going on around how to quantify the economic implications of things like artificial intelligence (AI) and climate change, but I don't think we can say that central banks are incorporating that into their economic forecasts in any kind of meaningful way yet. (See the statistics below for how central banks, among other financial institutions and regulators, are utilising AI.)

There has been more progress on the financial stability side, but there is an acknowledgement that there is more work to be done. A central bank's mandate is price stability, and when it is as painful for households and businesses as it is now, we are reminded why price stability is so important.

Gero Jung (GJ): The fight against inflation is now a top priority for the G10 central banks. We are seeing some divergence in the sense that the US Federal Reserve, the Bank of England (BoE), the European Central Bank (ECB) and the Swiss National Bank are all fighting against high inflation. In emerging markets, however, we see central banks actually lowering interest rates. Within central banks, there has been a policy shift. For example, the Bank of Japan recently switched to a less accommodative stance, having until recently been the last main dovish central bank standing. So, there is some asynchronicity in central bank policy, with important implications for asset managers like ourselves.

A move towards digital currencies

GJ: Central bank digital currencies (CBDCs) allow central banks to effectively steer monetary supply and, by implication, monetary policy, in an easier, more direct way. The BoE and Sweden's Riksbank are both researching digital currencies, while central banks in countries such as the Bahamas and Nigeria have already launched CBDCs (you can track the status of CBDCs worldwide at *atlanticcouncil.org/cbdctracker*). It's at quite an early stage, but certainly, from a theoretical point of view, it's something that central banks will continue to work on.

IA: If CBDCs become the mainstream way of transacting, central banks must be in the mix or risk losing control over the monetary sector. The BoE's position is that it is not committed to delivering a digital pound, but it wants to be prepared if that becomes necessary. As the ECB has pointed out, if you have monetary sovereignty, you have more security in transacting.

Incremental gains for sustainability and climate change

IA: The general investment community hasn't fully factored climate change risks into day-to-day models, so it's unfair to punish central banks for not doing that, either. Generally, economic forecasts focus on the next five years, and the most powerful economic fallout from climate change is likely to happen beyond that timeframe.

We've seen moves from the ECB to ensure that bank risk and company disclosures consider climate change risks. That is being incorporated into the financial stability framework, which is a big change. The ECB's asset purchase programme was also more focused on corporates that aligned with European sustainability and climate change goals. Is that going to have a profound impact? Probably not. But at least it's not pulling in the opposite direction to the overall objectives of the European Council.

A wait-and-see approach to AI

IA: AI is a risk central banks will take seriously and respond to if it causes economic turmoil, but at this stage, many are looking towards other regulatory functions of government for clarity. The ECB endorses standardised EU rules on AI, but it remains on the government side instead of making policy decisions. There are currently projects underway to streamline regulation and make it more responsive to the issues around AI, so that innovation is certainly happening. (For example, in the UK, additions such as an 'ethical use of AI' reporting duty have been proposed to the Financial Services and Markets Bill, currently under consideration in the House of Lords.)

GJ: It's too early to infer, but the important point for central banks is AI's potential to increase productivity and therefore growth. If 100% of labour and 100% of capital is employed, would the economy be more productive? There are some encouraging signs that this could be the case, thanks to AI. However, if growth increases, then the interest rate policy responses of central banks will have to adapt, too.

A more active role in managing the economy

GJ: Over the past few years, we've seen central banks attempt to spur economic activity through quantitative easing measures, such as buying bonds. We're now going in the opposite direction with quantitative tightening. That's a major difference from what we saw two or three years ago. Central bankers have one key instrument – interest rate policy – and one main task – managing inflation. I believe it's good that central banks remain focused on reining in price pressures and keeping them at a balanced pace of growth. ●

HOW IS AI BEING UTILISED BY MONETARY AUTHORITIES?

In early 2023, the Global Financial Innovation Network (GFIN) surveyed 30 of its members – including monetary authorities, securities commissions, central banks, insurance authorities, commodity commissions, and pension regulators – about trends relating to artificial intelligence (AI) and machine learning (ML) in the financial services sector.

The findings, published in *Artificial intelligence and machine learning survey analysis*, showed that approximately 86% of respondents had utilised AI/ML solutions in a variety of fields. The most common uses include algorithmic trading (19%), asset management (19%), credit intermediaries (18%), 'robo-trading' (15%), and open finance (7%).

However, results also show that there are still barriers to adoption, with the most significant being the high cost involved and a skills shortage (57% each), followed by a lack of legislation (30%), resistance to change (26.7%), data availability (20%) and privacy concerns (13%).

From a regulatory perspective, 40% of respondents already have laws and regulations in place regarding AI and ML in their jurisdictions, while 40% of regulators say that they are currently using AI and ML in their continuous supervision. Of those who don't currently use the technology, 89% say that adoption of AI and ML is part of their strategy over the next three years.

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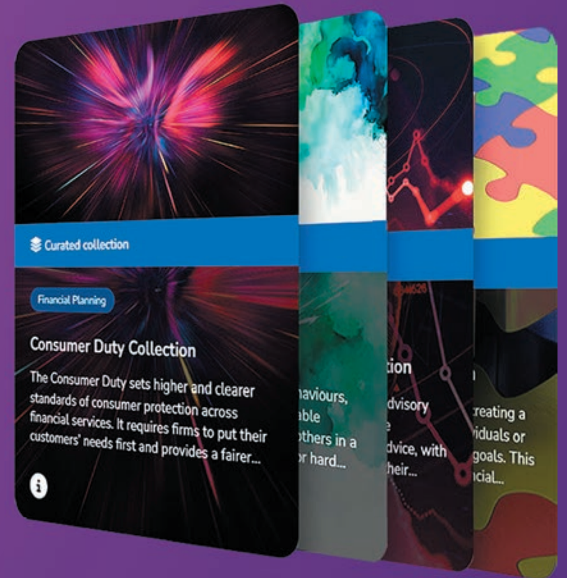

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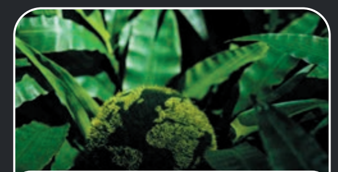
AI – the investment realities in mid-2023



Sustainable finance: the world in 2023

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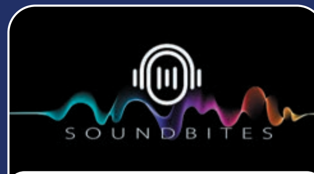

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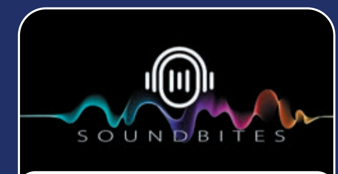


Managing Crises in Finance

education

54 Regulatory update: FCA on the ropes? (p.54) | Last call for Consumer Duty (p.55) | Firm culture in a Consumer Duty world (p.55) | Regulating the future of financial services (p.56) | A growing focus on fraud (p.56) | AI innovation and international competitiveness (p.57) | Other developments (p.57) **59** Review of financial markets: Neither artificial nor intelligent but it should be ethical **62** Last word: Is tokenisation the future of securities?

Robbie Constance, partner, and **Christopher King**, trainee solicitor, at DWF outline key regulatory developments (up to July 2023)
Robbie.Constance@DWF.law
Christopher.King@DWF.law

Growing concerns over an explosion in 'finfluencers' and scams, combined with the new Consumer Duty, are prompting a new wave of regulation on digital assets and firm behaviour.

Tension between the courts and the FCA is mounting following decisions where the FCA has taken legal risk and lost. Might this signal the start of a more critical approach to regulation or a plea for more and better laws alongside the regulations?

FCA ON THE ROPES?

The FCA has suffered numerous blows in the Upper Tribunal in recent months. The courts are increasingly willing to push back on undercooked FCA enforcement decisions and prevent the FCA from exceeding its powers. Whether this marks a meaningful shift in the FCA's relationship with the courts – and the balance between the law and regulation – remains to be seen.

Upper Tribunal upholds challenge in Seiler, Whitestone and Raitzin

Following the FCA's decision to fine Julius Baer International (JBI) over £18m and prohibit three former JBI employees from performing regulated activities because of integrity and control failings, the Upper Tribunal has overruled the FCA's prohibition. The Tribunal held that the FCA had not made out its case and directed that it would be irrational to prohibit the individuals for lacking integrity. The Tribunal was highly critical of the FCA's management of the case, citing delays in the issuance of decision notices, failures to call witnesses, over-reliance on third-party investigations and the use of prohibition orders as a proxy for disciplinary sanctions. The Tribunal, therefore, used its powers under section 133A(5) of the Financial Services and Markets Act (FSMA) to direct the FCA to review its disclosure process. The FCA published a statement on the decision, which, following considerable criticism, was quietly removed from its website – it had been accused of downplaying the Tribunal's comments, stating: "We have already had a successful outcome in this case, fining Julius Baer over £18m … the Tribunal agreed with many of our arguments including that suspicious transactions should have been stopped".

Upper Tribunal recommends that FCA reconsider enforcement action against Mr Markou

In 2021, the FCA penalised Mr Markou £25,000 and prohibited him from performing functions in relation to any regulated activity, due to having lacked appropriate oversight of his firm's mortgage business. The Upper Tribunal concluded that Mr Markou did not act recklessly but with integrity. The Tribunal also determined that it was inappropriate for the FCA to impose financial penalties on Mr Markou as there had been no breach of Principle 1. In a statement, the FCA referred to the decision as "incorrect and irrational" and said it would be seeking to appeal.

Upper Tribunal confirms restrictive approach for single firm redress schemes in BlueCrest

In 2021, the FCA sought to impose a single firm redress scheme on BlueCrest Capital Management owing to its failure to properly manage conflicts of interest. The Upper Tribunal decided the FCA cannot impose a single firm redress scheme solely by using its powers under section 55L of FSMA:

it must meet the higher standards stipulated in section 404F(7). Namely, the FCA must establish that the civil standard is met in relation to duty, loss, causation and actionability. The FCA has not commented on this decision.

Despite facing resistance in the Upper Tribunal, the FCA does not appear deterred. It has confirmed an ongoing investigation and intensive supervision of Crispin Odey and Odey Asset Management, looking into whether Mr Odey was a "fit and proper person to work in financial services". Following the final notice given to Pembrokeshire Mortgage Centre over unsuitable British Steel pension advice, the FCA has also banned primary adviser Denis Lee Morgan from advising on pension transfers and from holding a senior management function in a regulated firm.

LAST CALL FOR CONSUMER DUTY

Consumer Duty came into force on 31 July and remains a major focus for the entire financial services market. The FCA is maintaining close oversight of firms' preparedness, having published a review of fair value assessment frameworks in May and an article and a firm survey on preparedness in June. It reported that the majority of firms believed they were on course to implement the Duty on time and that their firm value assessments demonstrated that they had carefully considered the shift in focus to consumer outcomes. It recommended firms ask themselves the ten key questions in its Finalised Guidance (FG22/5) and identified four areas for further consideration by firms:

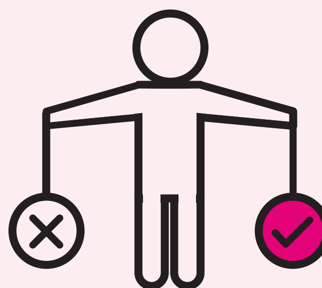
- collecting and monitoring evidence that demonstrates that products and services represent fair value
- ensuring clear oversight and accountability of the necessary remedial actions if products and services are found not to provide fair value
- ensuring, where relevant, sufficient analysis of the distribution of outcomes across groups of consumers in the target market, beyond broad averages, to demonstrate how each group receives fair value
- summarising and presenting fair value assessments in a way that enables decision-makers to robustly discuss whether the product or service represents fair value.

The Financial Ombudsman Service (FOS) has also joined the fray with a speech on what the Duty means for resolving complaints. The FOS does not expect the Duty to significantly change how it considers many complaints but is creating sector-specific directorates, which can focus on the Duty's impact in each sector.

For more information on the Duty, visit our Consumer Duty Hub: Consumer Duty – an overview | DWF Group

FIRM CULTURE IN A CONSUMER DUTY WORLD

Coinciding with the Duty implementation, the



FCA has published three speeches emphasising the need for firms to take the initiative to do the right thing and consider consumer outcomes across all business areas.

- A speech by Emily Shepperd (FCA chief operating officer) discussed how the Duty imposes a "higher standard" on firms, many of which will need to make changes to their culture and people management practices to comply. Firms will need to demonstrate at "every stage of the regulatory lifecycle" how their business model, actions and culture are focused on delivering good customer outcomes. The FCA also expects firms to do more to prevent "rolling bad apples" by not turning a blind eye to new recruits, taking regulatory referencing more seriously and implementing controls to prevent individuals from repeating misconduct.
- A speech by Sarah Pritchard (FCA executive director of Markets and International) highlighted that firms need to ask themselves how the Duty applies in the context of financial crime and consider how financial crime risks can be reduced when designing new products. Firms also need to be critical of whether they operate their financial crime controls in a sufficiently agile way. This focus on financial crime controls has been reflected in the FCA's £17m fine to ED&F Man Capital Markets for serious failings in its oversight of cum-ex trading.
- A speech by Therese Chambers (FCA joint executive director of Enforcement and Market Oversight) praised the proactive redress exercise performed by Quilter (owner

READ

The Consumer Duty obliges firms to ensure that all customers, including those in vulnerable circumstances, receive good outcomes. ***Read our Review article on the use of 'AI to flag vulnerability'***

> “A survey of 100 young investors found that they think more ‘long-term’ when dating than when making investment decisions”

of Lighthouse Advisory Services), which committed to pay £23m to British Steel Pension Scheme customers. The FCA considered the exercise as an example of proactive transparency and cooperation, which is “more unusual than it should be”. Ms Chambers reiterated the importance of firms doing the right thing, including not using legal advisers to frustrate FCA investigations and detecting, reporting and remediating rule breaches at an early stage. Strict legal liabilities (and even we lawyers!) appear surplus to requirements – but this was before the BlueCrest decision …

REGULATING THE FUTURE OF FINANCIAL SERVICES: CRYPTO, FINFLUENCERS AND FACEBOOK ADS

The FCA has published the results from a survey of 100 young investors, which found that (worryingly) they think more ‘long-term‘ when dating than when making investment decisions. The survey found that only 2% have more than five years in mind when investing, while 14% have no timeframe in mind. Faced with these concerning results, the FCA decided to fight fire with fire, partnering with *Celebs Go Dating* presenter Anna Williamson to host an event encouraging young investors to apply dating principles to their investing.

Concerns are also mounting regarding investors being drawn into risky investments by gamification practices, finfluencers and misleading social media ads. In her speech on the regulation of digital assets, Sarah Pritchard raised concerns about cryptocurrency-based crime reaching a record high in 2022 and discussed how the FCA is collaborating with Google and Bing to stop promotions by non-FCA-authorised firms on their platforms. The FCA is also seeking to reduce risk by striking down misleading financial promotions. FCA interventions in Q1 2023 resulted in 2,235 promotions being amended/withdrawn and 611 alerts on unauthorised firms and individuals.

Spurred on by these concerns, regulators appear to be launching a new wave of digital asset regulation. A Treasury Committee report has called for consumer trading in unbacked cryptoassets to be regulated as gambling rather than as a financial service, particularly over concerns that regulating unbacked cryptoassets as a financial service could lead consumers to believe they are safer than they are. However, this call appears to have fallen on deaf ears, with all indications suggesting that cryptoassets will eventually be regulated as a financial product.

The FCA has published a policy statement containing near-final financial promotion rules for cryptoassets (PS23/6) alongside a guidance consultation on cryptoasset financial promotions (GC23/1). A new webpage has been created to help firms prepare for implementation. The FCA is mostly proceeding with its proposals in its January 2022 consultation paper (CP22/2), with some targeted changes to align the rules for cryptoassets with those for other high-risk investments. The rules are contained in the draft Cryptoasset Financial Promotions Instrument 2023.

A GROWING FOCUS ON FRAUD

The Economic Crime and Corporate Transparency Bill (the Bill) has passed a third reading in the House of Lords. It promises considerable reform for the UK’s fraud prevention regime, including:

- New powers for authorities to freeze and seize cryptocurrencies used for criminal activities.
- A new ‘failure to prevent fraud’ offence, where companies may be fined should they benefit from fraud committed by their employees, agents or other persons who act on their behalf. Companies will have a defence against this offence where they have reasonable fraud prevention procedures in place. While earlier iterations of this offence had only applied to large companies, the latest iteration applies to companies of all sizes.
- Reform to the UK’s ‘Identification Doctrine’, the legal test for deciding whether the mind and will of a natural person (i.e., an individual) can be regarded as that of a legal person (i.e., a corporate entity). The government has proposed to expand the doctrine by bringing ‘senior managers’ within the scope of those who

can be considered the 'directing mind and will' of a company, making it easier for companies to be prosecuted for financial crime offences.

It remains to be seen whether these reforms will be included in the final legislation. However, the Bill will have a considerable impact on the UK's financial crime landscape. We anticipate it will be at least a year between the Bill receiving royal assent and coming into force, making it unlikely to be any earlier than Q3 of 2024.

The government has published its new fraud strategy, titled Stopping Scams and Protecting the Public. It promises £100m "to bolster law enforcement as part of a wider £400m investment into tackling economic crime". This strategy includes banning cold-call sales of all financial products and introducing a modernised system for victims to report fraud and cybercrimes to the police. Recognising that the tech sector is often used as the tool by which fraud is perpetrated, tech companies will also be required to step up their fraud prevention processes, including making the process of reporting fraud more straightforward for its users.

AI INNOVATION AND INTERNATIONAL COMPETITIVENESS

A speech by Sheldon Mills (FCA executive director, Consumers and Competition) discussed how innovation and regulation in financial services could drive the UK's economic growth in the context of the FCA's and the Prudential Regulation Authority's (PRA) new secondary objective related to international competitiveness and growth. He explained that while the FCA welcomes the secondary objective, it will not bend its supervisory and enforcement work, or distort its rules, to ensure competitiveness at all costs. It will carefully assess the secondary competitiveness objective in light of its primary objectives when carrying out its work. We anticipate innovation and competition will be paid plenty of lip service, but ultimately the FCA will prioritise consumer protection and market integrity.

A speech by Ashley Alder (FCA chair on the drive for data in nonbank financial intermediation (NBFI) stated that the priority for NBFI regulation should be a global effort to improve data needed to enable regulators to spot risks in private markets and supervise them. He also suggested that the FCA's April 2023 recommendations for LDI asset managers, intended to address deficiencies in risk management, are relevant to all NBFI firms and sectors.

A speech by Nikhil Rathi (FCA chief executive) welcomed the government's call for the UK to become a global hub of AI regulation and referenced the FCA's upcoming AI sandbox. Mr Rathi discussed how AI can boost productivity, increase competition for customers and stimulate innovation. The FCA also published a big tech feedback statement that set out its focus on the risks to competition, saying it will link its approach to its new secondary objectives. Mr Rathi discussed how the FCA, Bank of England and PRA would, therefore, be looking to regulate critical third-party service providers in big tech, including AI services to the UK financial sector. He also addressed suggestions in Parliament that there should be a bespoke Senior Managers and Certification Regime (SMCR)-type regime for the most senior individuals managing AI systems.

OTHER DEVELOPMENTS

Consultation paper on remuneration rules

The FCA has published consultation paper (CP23/11) proposing that its remuneration rules for small dual-regulated firms be proportionate to the risks such firms pose to consumers. It proposes to amend its proportionality thresholds so that small firms are excluded from some of the remuneration rules. This would be done by increasing the total assets threshold and changing the additional criteria that firms with over £4bn of total assets must meet. The FCA also proposes to remove the requirement to apply the rules on malus and clawback. These changes are broadly consistent with the PRA's proposed changes in its consultation paper (CP5/23). The FCA plans to publish its policy statement and final rules and guidance in Q4 2023.

FCA criticises liquidity management in funds

The FCA conducted a review of liquidity management in asset managers and then published a Dear CEO letter outlining its findings and recommendations. It found a wide disparity in the quality of compliance with regulatory standards, with some firms having inadequate frameworks to manage liquidity risk. It also found that while tools for effective liquidity management were usually in place, these lacked coherence when viewed as a full process and were not always embedded into daily activities. Some liquidity stress testing methodologies were also assessed as using assumptions that were not appropriately conservative. Camille Blackburn (FCA director of Wholesale Buy-Side) stated that the review

READ

Nonbank financial institutions have grown into a trillion-dollar market with an important function in the economy but the question of whether they have sufficient regulatory oversight remains. ***Read our Review article 'Can regulation bring shadow banking into the spotlight?'***

should "serve as a warning to all asset managers" and the FCA "expects boards to discuss our findings and assure themselves that their firms are not among the minority with serious gaps in managing liquidity risk."

Expansion to the Dormant Assets Scheme

Following the expansion of the Dormant Assets Scheme (DAS) to cover insurance, pensions and securities in the Dormant Assets Act 2022, the FCA has published a consultation paper (CP23/12) on a second phase, covering investment assets and client money. These changes would bring managers and depositaries of authorised collective investment schemes and firms holding client money in scope of the DAS and would allow their consumers to access reclaims. CASS (Client Assets Sourcebook) and COLL (Collective Investment Schemes sourcebook) rules would be amended to specify what statements and information need to be set out in amended fund instruments for firms wishing to use DAS. It also proposes changes so that money ceases to be client money if it is paid to an authorised reclaim fund (ARF) in compliance with set conditions. The FCA hopes to finalise its proposals in Q4 2023.

Improvements to equity secondary markets and post-trade transparency requirements

The FCA has published policy statement (PS23/4) setting out final rules to improve the functioning of equity secondary markets. The policy statement includes:

- improving the content and consistency of post-trade transparency reports for equities
- allowing UK trading venues to reference prices from overseas venues in certain circumstances
- removing size thresholds for orders benefiting from the order management facility (OMF) waiver
- removing restrictions on UK trading venues using the same tick size as overseas venues.

The new post-trade transparency requirements will enter into force in April 2024. Changes include refinements to exemptions for post-trade transparency, including inter-fund transfers, give-ups and give-ins, inter-affiliate trades and certain transactions with central counterparties. It also includes proposals to streamline Articles 2, 6 and 13 of RTS 1, to expand the definition of benchmark trades. The changes to waivers from pre-trade transparency and to the tick size regime will apply immediately. The new rules are set out in the Technical Standards (Markets in Financial Instruments Transparency) Instrument 2023 (FCA 2023/19).

Financial Services and Markets Act 2023

FSMA 2023 has received royal assent and become an act of Parliament. It will establish a legislative framework for the revocation of all EU-retained law relating to financial services and a transition to new requirements under the FSMA 2023 regime. It will also bring about reform on payments firms' liability for authorised push payment (APP) scams and new secondary objectives and powers for the FCA and PRA. It also lays the groundwork for the regulation of cryptoassets and establishes 'sandboxes' that can facilitate the use of new technologies, such as blockchain, in financial markets. Discussing the Bill, Economic Secretary to the Treasury, Andrew Griffith, said: "2023 is proving to be a banner year for reforming our financial services. This landmark piece of legislation gives us control of our financial services rulebook, so it supports UK businesses and consumers and drives growth."

High Court dismissal of COBS (in) appropriateness claim

The High Court has dismissed a claim brought by an investor seeking to recover losses he suffered through spread bets in Day v. Forex Capital Markets. The claimant sought to argue that the defendant breached COBS 10A by failing to obtain sufficient information on their knowledge and education when assessing whether the service was appropriate for them.

The Court determined the defendant did not breach COBS, stating that they were entitled to infer that the claimant possessed sufficient knowledge from his practical experience and that the defendant was not obliged to ask questions about the investor's formal education. The Court also confirmed there is no continuing duty to review an investor's appropriateness after they have been granted permission to trade. This judgment shows that firms have some flexibility when deciding how to assess appropriateness, provided they can evidence why they believe investors have sufficient knowledge. We are seeing no such flexibility from the FOS when upholding complaints based on technical breaches of COBS 10A appropriateness requirements in relation to the sale, for example, of mini bonds. It is just another example of the apparent inconsistency between the regulatory regime and the law as applied in the courts. ●

Views expressed in this article are those of the authors alone and do not necessarily represent the views of the CISI.

REVIEW OF FINANCIAL MARKETS
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NEITHER ARTIFICIAL NOR INTELLIGENT BUT IT SHOULD BE ETHICAL

GEORGE LITTLEJOHN MCSI
Editor, *Review of Financial Markets*

Who invented artificial intelligence (AI)? Who knows, and at this stage in its development, who cares? But one early pioneer stands out for his wisdom: Professor Donald Michie of the University of Edinburgh. Michie was founder and director of the Department of Machine Intelligence and Perception from its creation in 1965. In 1985 he left to co-found The Turing Institute in Glasgow. Professor Michie had worked alongside Alan Turing at Bletchley Park during World War II. Alas, he did not live to see the day in June 2023 when UK Prime Minister Rishi Sunak announced a £900m investment in "compute [sic] technology" for Europe's biggest computer, at Edinburgh University. But his and Turing's ghosts may have graced Sunak's global AI summit in November 2023, held in their old stomping ground – Bletchley Park.

Michie took the general view that AI is neither artificial nor intelligent. In 1978, he described it as "knowledge refining", where "a reliability and competence of codification can be produced which far surpasses the highest level that the unaided human expert has ever, perhaps even could ever, attain". This could perhaps be AI's greatest contribution to our sector and our Institute and its members.

The 695th Lord Mayor's Ethical AI Initiative

Fast forward to today, and we are delighted to be working with Professor Michael Mainelli, Chartered FCSI(Hon), chair of Z/Yen Group and Lord Mayor of the City of London for a year from 10 November 2023, on a major project on skills and knowledge in AI. Full details are on the CISI website at *cisi.org/ai*. We have partnered with the Worshipful Company of Information

Technologists, British Computer Society (BCS), Citigroup, Z/Yen and others to create two streams of qualifications – for "deployers", which the CISI is developing, and "developers", where BCS's expertise lies.

AI can potentially affect society and individuals materially in both positive and negative ways. The rapid development of AI technology means that ethical concerns must be considered from the beginning of the design process. AI systems rely on large amounts of data, which raises privacy concerns. Without ethical guidelines and regulations in place, the misuse or mishandling of data can result in harm to individuals or groups. AI systems should be transparent, accountable and inclusive, and they should not reinforce or amplify existing inequalities.

As AI becomes more advanced and widespread, there are concerns about bias, transparency, accountability and safety. If people do not believe that AI is being developed and used responsibly and ethically, they may hesitate to use or interact with beneficial technologies.

Professor Mainelli's mayoral theme is 'Connect to Prosper – Our Knowledge Miles in the World's Coffeehouse'. It celebrates the City of London's knowledge, connections and convening power to solve global problems. He will promote this AI initiative during the year, as it is helping to address a global problem.

This ethical AI initiative aims to ensure that AI is developed and deployed in ways that benefit society while minimising potential harm. Ethical AI training can help ensure that AI is developed and deployed in a way that aligns with our values, respects human rights and promotes the common good. This initiative should establish ethical guidelines and principles for AI development, encourage transparency and accountability, and promote stakeholder collaboration and dialogue.

'All-in Finance against Carbon Initiative' for COP28

Separately, Professor Mainelli is working on what he calls "an international financial architecture compact for COP28". The aim is to present a "refreshed, united front on the way to use the totality of global finance to stop greenhouse gas emissions". The re-emphasis would be on:

- making emissions-trading systems markets work
- setting standards and targets for government issuance of sovereign sustainability-linked bonds
- using insurance-issued performance bonds to establish the credibility of voluntary carbon markets
- building international public-private catastrophe reinsurance vehicles.

Full details are in Professor Mainelli's article on page 17.

"AI systems should be transparent, accountable and inclusive"

Unlocking AI's full potential

The interaction between quantum computing and AI is one of the most exciting developments in modern-day technologies. The hype cycle is focused on AI, but in the words of Lord (William) Hague, former leader of the UK's Conservative Party, speaking recently at Imperial College: "Quantum computers can provide AI with the computational firepower needed to unlock their full potential. This means that if the country can lead on quantum computers, we can secure a lead on AI. And if we fall behind on quantum, we will likely fall behind on AI."

The essence of quantum is that it isn't binary but instead allows for multiple possibilities simultaneously, making it ideal for optimisation problems. And the UK has the second most quantum start-ups in the world, plus a £2.5bn UK Quantum Strategy.

There are two misapprehensions about quantum. One is that it is prohibitively expensive because of the construction costs of a quantum computer and the environment in which it needs to be kept. In fact, companies can access time on a quantum computer via the Cloud, with Microsoft Azure and AWS, among others, offering it as a service used by banks such as HSBC and JP Morgan.

The second misconception is that quantum is only about computing, with the goal of creating a quantum computer that can break current encryption within five to ten years. In fact, quantum and quantum-inspired algorithms are already being used on classical computers and the basic quantum computers – think of your first iPhone – that we have today.

Read the full piece by Karina Robinson, who is leading the City's charge on quantum, at *cisi.org/quantum.*

Sustainable ocean economy

Combining these three initiatives in the run-up to COP28 – AI, the "compute", and the sustainability challenge – we are delighted to be working with Citigroup on its project on 'healthy oceans'. These, according to a major recent study by the global banking giant, are important for our planet, society and the global economy.

The study serves as a primer on the business case for ocean action.

Ocean sustainability requires increased attention and action from businesses

and financial institutions and a more integrated approach across climate change, biodiversity and ocean health. Almost all industries contribute to ocean health decline through stressors including climate change, pollution, and land/sea use change and direct exploitation …

While we all intuitively recognise that oceans are important, the fact is we grossly underestimate how utterly critical they are to our survival as a species. Oceans, the world's largest ecosystem, cover over 70% of the Earth's surface, are home to 80% of all life, and produce 50% of the oxygen we breathe. While society devotes increasing time and energy to terrestrial drivers and impacts of climate change, more often than not we fail to recognise the critical part oceans play in this dynamic – absorbing 30% of the CO_2 produced by humans and capturing 90% of the heat generated from those emissions.

Given their extraordinary importance and our dependence on oceans, why the utter disdain? The simple fact is that around two-thirds (61%) of the oceans are outside national jurisdictions, meaning responsibility and oversight becomes an issue, and their sheer scale and depth enable an "out of sight, out of mind" attitude to prevail for many, leaving the ocean underfunded, unrecognised, and undervalued. Despite having their own UN Sustainable Development Goal (SDG 14), oceans received the least funding, and [SDG 14] is the least-cited of all of the SDGs, with a funding gap of some US$149bn per year to the estimated required annual spend of US$175bn."

Bluewashing comes of age

The term 'bluewashing' has been mentioned in a nautical context but tends, in most financial circles, to refer to deceptive communications that overstate an organisation's commitment to social goals. It has only relatively recently joined its cousin 'greenwashing' in the jargon jungle.

Its derivation is best understood in the context of the UN house colour, a very specific blue, representing opposition to red, for war. The original, limited use of the term 'bluewashing' came in the context of the UN's Global Compact, launched in 2000. This encouraged businesses to sign up for sustainable and socially responsible policies and report on the outcomes. The UN sought specific goals from the highest-level executives in firms, but from the early days, there was a sense that delivery was far from perfect.

For more information, see our Professional Refresher on the theme.

And finally … a tale of (not very) ancient times

Professor Sir John Kay, one of Britain's leading economists, has been speaking to our members on the parlous state of British pensions. To aid understanding of what can be a complex collision of concepts, he has penned a wonderful fairytale – oh, would that it was just a fairytale – of how things went wrong:

> Once upon a time, there was a wise and kindly emperor, with a faithful retainer called Sid.
>
> One day, the emperor took him aside and announced "You are serving me well, and as a mark of my esteem you will receive a pension which will enable you to maintain your standard of living even when you are no longer fit to work."
>
> "Thank you" said the retainer, "but what happens if you die before I do?"
>
> "Have no fear," declared the emperor. "My descendants will recognise the prosperity I have bestowed on them. They will honour my commitment, and in fairness to them I have set aside an earmarked sum which recognises the obligation I have undertaken to you and which they will in time assume."

Read the full, sorry story in our Review article on the 'Costs of LDI'. ●

OPPORTUNITIES FOR BUSINESSES AND FINANCIAL INSTITUTIONS

Building ocean literacy across the broader public, private and finance communities can help break down the many silos when it comes to ocean action, and build innovative partnerships and strategies to support a healthy and productive ocean. Non-profits and research institutions are underutilised partners in ocean action. All organisations can consider how ocean health can be integrated into strategies and action for climate change and biodiversity loss.

PRIVATE SECTOR

Set robust net zero commitments and assess climate and nature-related risks for operations and supply chain.

Engage and collaborate with suppliers, peers and other industries on ocean sustainability.

Utilise tools to limit negative impacts on terrestrial and marine biodiversity and ecosystems.

Apply an ocean lens to business opportunities and potential new revenue streams.

FINANCE SECTOR

Support industries in their transition to net zero, nature, and ocean positive.

Consider ocean health in broader sustainability frameworks and strategies.

Collaborate with peers and leverage existing ocean expertise and guidance.

Utilise innovative financial approaches to support a sustainable ocean economy, including blended finance, blue carbon and biodiversity credits, and blue bonds.

PUBLIC SECTOR

Support greater alignment of COP meetings – climate, biodiversity and ocean.

Work together to bring the UN High Seas Treaty into force in a timely manner.

Mobilise capital to support UN SDG 14.

Support blue skills training to build a robust and skilled blue workforce.

Source: Chart adapted from Citi GPS: Sustainable ocean economy

Is tokenisation the future of securities?

Bringing blockchain into mainstream asset management will have many advantages – but regulation will need to catch up

WORDS BY ANDY DAVIS

Every so often, the idea that crypto will become a mainstream investment that asset managers hold alongside traditional securities becomes a hot topic. During the powerful bull market that followed the Covid crash, for example, the UK fund manager Ruffer attracted widespread coverage after buying around US$600m of bitcoin – the original cryptocurrency – in November 2020, ostensibly as a hedge against traditional currencies' depreciation. Hedge or not, this turned out to be a canny piece of market timing. Ruffer netted about US$1.1bn when it sold the asset in 2021.

Not long afterwards, a so-called crypto winter took hold. Prices plunged and, in late 2022, several high-profile exchanges set up to enable the dealing or lending of crypto, notably FTX and BlockFi, went bust.

Among the long list of illustrious investment names that lost money when FTX collapsed was BlackRock, the world's biggest asset manager. Asked about his firm's investment in FTX at a *New York Times* event in late 2022, BlackRock CEO Larry Fink dismissed it as "this small little investment we did". However, he suggested the tech that enables crypto trading – blockchain or distributed ledger technology (DLT) – was a much bigger deal.

DLT is a shared database spread across multiple computers worldwide, all updating simultaneously to create a single, verified and immutable record of transactions and ownership of the assets concerned. Until recently, that has mainly been cryptocurrencies. But Fink signalled the real opportunity lies in creating digital "tokens" that represent mainstream assets – equities, bonds, fund units – and that exist on DLT similar to that powering crypto trading.

"I believe the next generation for markets, the next generation for securities, will be tokenisation of securities," he said. "If we can have that distributed ledger… [with] instantaneous settlement, it changes the whole ecosystem."

Fink is far from alone in highlighting the advantages of bringing this technology into mainstream asset management. A few firms have already taken steps in that direction. A stake in a private equity fund managed by KKR was tokenised in 2022 by Securitize, a digital assets firm in the US. While in 2021, Franklin Templeton launched its OnChain US Government Money Fund, "the first US-registered mutual fund to use a public blockchain to process transactions and record share ownership".

Christian Pellegrino and Kenji Walker, US-based tokenisation experts at Alpha Financial Markets Consulting, believe tokenisation can open asset classes that most investors have so far been unable to access. For example, digital tokens could "fractionalise" investments in private equity or hedge funds – much as Robinhood has done with US equities – making it possible to offer them to clients who cannot meet today's high minimum investment thresholds. Regulation would still limit who these opportunities could be offered to, of course, but the potential of tokenisation to reduce transaction costs could make small-scale investment in these areas viable.

Potential cost savings are a central part of the case for tokenisation. As Fink suggested, settlement on DLT can be automated and instantaneous, cutting out multiple stages of the current process. Thanks to the so-called smart contracts incorporated in many distributed ledgers, numerous rules-based processes, such as payment of dividends or bond coupons, can be fully automated.

In an industry where the pressure to reduce fees is unlikely to abate, perhaps the potential of tokenisation to streamline processes and take out costs does indeed herald the next stage of asset management's digital transition. But if this promise is to be realised, some important pieces of the jigsaw must fall into place. Aside from more investment in the technology infrastructure that underpins distributed ledgers, among the most important is regulation.

A regulatory cloud has hung over the crypto world for years. The authorities have maintained that digital assets resemble securities so should be subject to securities laws, but have struggled to show that these assets meet the legal definition of a security. Regulatory frameworks put in place before digital tokens were dreamed of will need updating. Some countries, such as South Korea, which announced in February that it would regulate digital tokens, are making strides in the right direction. But this is a slower process in the US, the world's biggest asset management market.

Change, however, is inevitable. For all the scandal that has dogged the crypto world, it refuses to die. Over the next few years, the two industry camps, what Walker and Pellegrino call "crypto native fintechs" and "trad-fi" players, are likely to gradually converge and create something new. In that world, those of us who would run a mile from an offer to invest in crypto might start to see the advantages of hitching a ride on the technology that makes it possible. ●

ANDY DAVIS writes on business, finance and investment. He is a former editor of *FT Weekend* and has won the Wincott Award for Personal Financial Journalist of the year.

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AI: Destroyer of worlds, or bright new dawn?

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